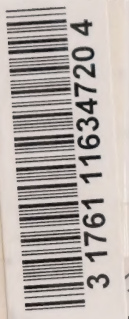
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UDGET 2010

MARCH 4, 2010

CARSWELL®

CANADIAN FEDERAL BUDGET 2010

MARCH 4, 2010

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Table of Contents

DEPARTMENT OF FINANCE NEWS RELEASE

Budget 2010: Leading the Way on Jobs and Growth 1-1

BUDGET EXCERPTS

The Budget Speech 2010: Leading the Way on Jobs and Growth 2-1

The Budget in Brief 2010: Leading the Way on Jobs and Growth 3-1

Chapter 1 — Budget 2010: Leading the Way on Jobs and Growth 4-1

Introduction 4-3
Delivering Year 2 of Canada's Economic Action Plan 4-4
New Investments in Jobs and Economic Growth 4-5
Supporting Families and Communities and Standing Up for Those Who Helped Build Canada 4-7
Honouring Canada's International Commitments 4-7
The Three-Point Plan to Return to Budget Balance 4-7

Annex 5: Tax Measures: Supplementary Information and Notices of Ways and Means Motions 5-1

Tax Measures: Supplementary Information 5-3

Overview 5-5

Personal Income Tax Measures. 5-8

Benefits Entitlement — Shared Custody 5-8
Universal Child Care Benefit for Single Parents 5-8
Medical Expense Tax Credit — Purely Cosmetic Procedures 5-9
Rollover of RRSP Proceeds to an RDSP 5-10
Carry Forward of RDSP Grants and Bonds 5-12
Provincial Payments into RESPs and RDSPs. 5-16
Scholarship Exemption and Education Tax Credit 5-16
Charities: Disbursement Quota Reform 5-17
Employee Stock Options 5-21
U.S. Social Security Benefits 5-26
Mineral Exploration Tax Credit 5-27

Business Income Tax Measures 5-27

Accelerated Capital Cost Allowance for Clean Energy Generation 5-27
Television Set-top Boxes — Capital Cost Allowance 5-32

Interest on Overpaid Taxes. 5-32
Federal Credit Unions. 5-33
SIFT Conversions and Loss Trading 5-33

International Taxation 5-35

Section 116 and Taxable Canadian Property 5-35
Refunds under Regulation 105 and Section 116 5-36
Foreign Tax Credit Generators 5-37
Foreign Investment Entities and Non-Resident Trusts 5-39

Sales Tax Measures 5-46

GST/HST and Purely Cosmetic Procedures 5-46
Simplification of the GST/HST for the Direct Selling Industry 5-47

Other Tax Measures 5-49

Specified Leasing Property Rules 5-49
Information Reporting of Tax Avoidance Transactions — Public Consultation 5-50
Online Notices 5-52
Tax Evasion and the Proceeds of Crime and Money Laundering Regime . .5-53
Taxation of Corporate Groups 5-54
Aboriginal Tax Policy 5-54

Customs Tariff Measures 5-55

Tariff Reductions on Machinery Inputs and Machinery and Equipment . . .5-55

Previously Announced Measures 5-57

Notices of Ways and Means Motions 5-59

Notice of Ways and Means Motion to amend the *Income Tax Act* and *Income Tax Regulations* 5-61
Notice of Ways and Means Motion to amend the *Excise Tax Act* 5-79
Notice of Ways and Means Motion to amend the *Customs Tariff* 5-99
Notice of Ways and Means Motion to Amend the *Universal Child Care Benefit Act* 5-116
Notice of Ways and Means Motion to amend the *Income Tax Act*, the *Excise Tax Act*, the *Excise Act, 2001*, the *Air Travellers Security Charge Act*, the *Canada Pension Plan*, and the *Employment Insurance Act* relating to Online Notices 5-117
Notice of Ways and Means Motion to amend the *Air Travellers Security Charge Act* 5-118

Ottawa, March 4, 2010
2010-018

Budget 2010: Leading The Way On Jobs And Growth

The Honourable Jim Flaherty, Minister of Finance, today tabled a budget plan that builds on Canada's economic recovery with action to create jobs and growth, sustains our nation's economic advantages and includes a disciplined plan to return to balanced budgets.

"We present today a jobs and growth budget," said Minister Flaherty. "In this budget, we are completing our Economic Action Plan to create jobs now. We are taking additional measures to protect existing jobs and create new jobs. We are also looking ahead to secure our long-term economic growth."

Budget 2010 will help solidify Canada's economic recovery and sustain our economic advantage now and for the future. The budget plan has three key objectives.

Delivering Year 2 of Canada's Economic Action Plan

First, it confirms $19 billion in new federal stimulus under Year 2 of Canada's Economic Action Plan to create and protect jobs. This new stimulus will be complemented by $6 billion from provinces, territories, municipalities and other partners. The new stimulus for 2010–11 includes:

- $3.2 billion in personal income tax relief.
- Over $4 billion in additional benefits, training opportunities and Employment Insurance premium relief to help unemployed Canadians.
- $7.7 billion in infrastructure stimulus to create jobs.
- $1.9 billion to create the economy of tomorrow.
- $2.2 billion to support industries and communities.

Creating the Jobs and Economy of Tomorrow

Second, Budget 2010 invests in a limited number of new, targeted initiatives to build jobs and growth for the economy of tomorrow, harness Canadian innovation, and make Canada a destination of choice for new business investment. Measures include:

- Over $100 million to protect jobs by extending the maximum length for work-sharing agreements.
- $108 million to support young workers through internships and skills development to help them find jobs and to support Aboriginal students.

- Over $600 million to help develop and attract talented people, to strengthen our capacity for world-leading research and development, and to improve the commercialization of research.
- Making Canada a tariff-free zone for manufacturers, by eliminating all remaining tariffs on machinery and equipment and goods imported for further manufacturing in Canada.
- Establishing a Red Tape Reduction Commission to reduce paperwork for businesses.
- Measures to support investment in clean energy generation.

A Three-Point Plan for Returning to Budget Balance

Third, Budget 2010 outlines a three-point plan for returning to budget balance once the economy has recovered.

- First, the Government will follow through with the exit strategy built into the Economic Action Plan. Temporary measures in the Action Plan will be wound down as planned.
- Second, the Government will restrain spending through targeted reductions. Towards achieving this objective, Budget 2010 proposes $17.6 billion in savings over five years.
- Third, the Government will undertake a comprehensive review of government administrative functions and overhead costs to identify additional savings and improve service delivery.

The Government will not raise taxes or cut major transfers for health care, education and pensioners.

As a result of the expiration of the Economic Action Plan and the measures in this budget, the deficit is projected to decline by almost half over the next two years to $27.6 billion in 2011–12, and by two-thirds to $17.5 billion in 2012–13. In 2014–15, the deficit is projected to be $1.8 billion.

"Canada's history shows what a free people served by good government can accomplish together," said Minister Flaherty. "We are at a key moment in that history, as we emerge from the global recession. Our government means to be a partner in Canada's recovery, not an obstacle to its growth."

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CANADA'S ECONOMIC ACTION PLAN
YEAR 2

THE BUDGET SPEECH 2010

Leading the Way on Jobs and Growth

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

March 4, 2010



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Budget 2010—Leading the Way on Jobs and Growth

Canada's Economic Action Plan

As I rise in this House today, our nation is at a crossroads.

We have passed through some steep and rocky terrain.

Much of the territory was uncharted.

We were prepared, and we protected ourselves.

We are making our way through, and our compass has not failed us.

The way forward remains challenging.

Some would urge us to turn at this crossroads.

Experience tells us this would eventually lead us backward.

We need to keep helping those who need a hand up.

We need to stay on course.

We can see our destination on the horizon.

It is a high point, not only in our nation's history of increasing prosperity, but also a high point to which the world will look for inspiration.

It is a Canada in which our children and grandchildren will surpass us.

It is a Canada for which they will be grateful.

They will be grateful as we are grateful for the work and wisdom of Canadians before us.

Our response to the global recession

Canada has been drawn into a global economic recession.

It has been deeper and more widespread than any since the 1930s.

A year before the crisis, we saw the risk of a slowdown.

It originated outside our borders, but we knew it would eventually affect us.

We reduced taxes on Canadian families and businesses, to stimulate our economy.

The crisis emerged more quickly and with greater force than anyone could have predicted.

Many international financial institutions failed, but not here in Canada.

Stock markets around the world plunged deeply.

For a time the global financial system was at risk of shutting down.

Our government took immediate action to ensure Canadian banks could keep lending.

We kept our economy from grinding to a halt.

We worked quickly with our partners in the G7 and G20.

In a period of unprecedented uncertainty, we helped lead an effective, coordinated global response.

To lead our own country forward, we presented a plan, a bold plan, Canada's Economic Action Plan.

It is a plan to protect Canadians and create jobs during the global recession.

It is a plan to invest in our future growth.

That plan is working.

We are in the middle of the largest federal investment in infrastructure in over 60 years.

We are putting Canadians to work on almost 16,000 projects across the country.

We are building better roads, bridges, border crossings, public transit and college and university facilities.

We are providing extra help and training to Canadians who are out of work.

We are providing special help to the most vulnerable communities and industries.

We are helping businesses avoid layoffs, to keep Canadians working.

Through Work-Sharing alone we have helped protect the jobs of more than 225,000 Canadians.

Our performance in the global recession

Canada has faced the global recession from a position of strength.

Because of prudent government regulation, none of our banks failed.

None of them required a bailout from taxpayers, unlike their competitors in other countries.

Our government had managed the nation's finances responsibly.

We had paid down debt and reduced taxes, consistently and aggressively.

As a result, we have been able to take extraordinary measures to protect the Canadian economy.

Like virtually all other countries, we have needed to run a substantial deficit to do so.

Unlike other countries, we are in a position to ensure our deficit will be temporary.

We can meet our current needs without jeopardizing our long-term growth.

The proof is in our performance.

By key measures, Canada is performing better than the United States and other advanced economies.

Leading authorities praise the stability of our mortgage industry.

They point to our financial system as the soundest in the world.

Before the recession Canada had the lowest debt-to-GDP ratio in the G7, by far.

After the recession Canada will still have the lowest debt-to-GDP ratio in the G7, and by an even wider margin.

In 2010 the IMF estimates that Canada's debt-to-GDP ratio will be approximately 31 per cent.

In the United States the ratio will be almost 67 per cent.

In the United Kingdom it will be 75 per cent, and in Japan, 115 per cent.

Their ratios will continue to climb, while Canada's will begin falling in 2011.

Canada has also lost proportionately fewer jobs than the United States, our largest trading partner.

In fact, the unemployment rate in Canada is now approximately one and a half percentage points lower than in the U.S.

This is the largest gap in Canada's favour in more than 30 years.

Since July 2009 the Canadian economy has generated 135,000 net new jobs.

In the same period the United States has continued to lose jobs, month after month.

A Jobs and Growth Budget

Our government has held hundreds of consultations with Canadian workers and businesses across the country, to chart the way forward.

Canadians remain concerned about jobs and the economy.

They know that a speedy and strong recovery is not a given.

They also know that government must live within its means; that we cannot agree to every request for new spending.

Canadians understand the need for certainty, stability and steady leadership.

This is what our government has provided and will continue to provide.

As laid out yesterday in the Speech from the Throne, the economy remains our central concern.

To address that concern, we present today a Jobs and Growth Budget.

In this Budget we are completing our Economic Action Plan, to create jobs now.

We are taking limited and focused additional measures to protect existing jobs and create new jobs.

We are also looking ahead, to secure our long-term economic growth.

Protecting and creating jobs

Our government is focused on jobs and growth, for one simple reason.

Canadians are focused on jobs and growth.

Some business owners are worried about having to lay off workers.

Some families are worried about their jobs.

Others are worried about whether there will be jobs for their children in the years ahead.

My job, our government's job, is to respond to these worries with help and hope.

That is what drives us every day.

That is what Canada's Economic Action Plan is all about.

That is what we have been working for since we were first elected to office.

Jobs—good jobs, now.

Growth—an economy that keeps producing good jobs.

Canada—the best place in the world to raise a family, work and do business.

A country where our children can realize their dreams.

A country that draws people from around the world, to build a better life.

Full implementation of stimulus

Today in this Budget our government restates its commitment to that vision.

First, we will continue meeting our country's immediate needs, to secure our economic recovery.

We are fully implementing the temporary stimulus measures announced in Canada's Economic Action Plan.

We are investing nearly $20 billion to stimulate our economy over the next year.

Some say we should not follow through on our commitment.

They say further stimulus is not needed.

Our government will stay on course.

We will complete the rapid rollout of infrastructure projects across the country.

These projects are creating jobs now.

They are also giving us the modern infrastructure we need for long-term growth.

We will keep helping long-tenured workers.

We will keep helping industries and communities hit hardest by the global recession.

We will keep helping those who need it, through extended EI benefits and skills-training opportunities.

Extension of Work-Sharing

While following through on these commitments, our government is taking further action to protect jobs.

In this Budget we are extending by one year our enhancements to the Work-Sharing program.

A business owner in Swift Current told me that without this program, her company would have closed its doors.

Her 37 employees would have been laid off permanently.

Work-Sharing allowed her to keep them all working, and now business is coming back.

I have heard great stories like this across the country.

Work-Sharing is working.

Today our government is keeping it working, to protect Canadian jobs.

We are also taking action to protect the interests of seniors and Canadians planning for retirement.

This month we will launch public consultations on how to improve Canada's retirement income system.

We will continue working closely with the provinces and territories on this issue.

We expect to make further progress on ensuring a strong and sustainable system when ministers meet later this spring.

New support for youth employment

In this Budget our government is also creating new employment opportunities for young Canadians.

We are increasing support for internships, to help post-secondary graduates get that crucial first job in their field.

We are making new investments to help youth at risk, to help them enter the job market.

We are also supporting the innovative Pathways to Education Program.

This is a practical, community-based program that is opening a lifetime of opportunity for many young Canadians.

Our government will help extend this opportunity to many more.

Investing in research and innovation

We are creating opportunity on other fronts too, to ensure our long-term economic growth.

We are supporting innovation in our colleges and universities, research hospitals and other research institutions.

These investments will help create clusters of great new jobs on the frontiers of knowledge.

They will promote better health, a cleaner environment and a more sustainable use of natural resources.

I am especially pleased to announce in this Budget new funding for post-doctoral researchers.

These fellowships will encourage the next generation of Canadian innovators to make their mark right here at home.

They will help brand Canada as a top destination for the research leaders of tomorrow.

In this Budget we are supporting the Canadian Space Agency and the RADARSAT Constellation Mission.

We are taking the next major step in the development of the Canadian High Arctic Research Station.

We are helping connect researchers and businesses, to bring new ideas from the lab to the marketplace.

We are increasing support for research and development by small- and medium-sized businesses.

We are also taking an historic step forward in making Canada more competitive in the global economy.

Eliminating tariffs for manufacturers

Last year we announced the elimination of tariffs on a broad range of machinery and equipment for manufacturers in Canada.

In this Budget we are taking action to eliminate the remaining tariffs on machinery and equipment.

We are also eliminating tariffs on production inputs.

This will give Canada the status of being the first G20 country to become a tariff-free zone for manufacturers.

It will greatly reduce costs and paperwork for manufacturers in Canada.

It will lower costs for consumers of Canadian manufacturing goods.

It will make Canadian products more competitive here at home and abroad.

It will help our manufacturers to invest and innovate, especially small- and medium-sized manufacturers.

It will help keep jobs in Canada, and create new jobs for Canadians for years to come.

Canada has earned a global reputation for the soundness of our financial system.

Our business taxes are increasingly low and competitive.

Our government will continue making progress in concluding free trade agreements.

Combined with these advantages, this latest step forward sends a message to the world: Canada is open for business.

Reducing taxes and paperwork for businesses

Our government will take further steps to reduce the paperwork burden for Canadian businesses.

We will establish a commission to reduce red tape.

The commission will include parliamentarians and private sector representatives.

Its work will be of special benefit to small businesses, the engines of job creation in Canada.

We will also continue reducing taxes on all Canadian businesses.

We are staying on course to having the lowest corporate income tax rate in the G7 by 2012.

Some argue that we should cancel these tax reductions.

Our government will follow through on our commitment.

Reducing the tax burden on businesses is a key part of Canada's advantage in the global economy.

It helps protect existing jobs, and attracts investors to create new jobs for Canadians.

Returning to balanced budgets

In this Budget, our government is keeping another promise.

We are taking steps to reduce the deficit, to return to balanced budgets in the medium term.

We take the same approach that Canadian families take in managing their household budgets.

We are spending what is necessary to meet an emergency.

We are also looking beyond that emergency, to ensure we can keep paying off the mortgage and saving for our children's education.

We are ensuring we will have the resources to sustain necessary spending on the priorities of Canadians.

We are protecting our quality of life, and securing our long-term prospects.

Doing so requires choices—balanced, sensible choices.

Some are proposing big, expensive new government programs.

These experiments would jeopardize our recovery and our long-term growth.

Others say reducing the deficit is not a priority.

Our government is taking a more responsible approach.

Just as we will implement our stimulus package as promised, we will also end it as promised.

We will also increase restraint on government spending.

Military spending and foreign aid

Our government has made major, necessary investments in Canada's military capabilities.

We have also raised spending on foreign aid to record levels.

Canada's response to the catastrophe in Haiti shows the generosity and compassion of Canadians.

It also shows the wisdom of these major investments.

We see it in the superb performance of our Canadian Forces in the rescue effort.

We see it in the expertise and commitment of our foreign aid workers in the reconstruction.

Canada has achieved a much greater ability to protect our interests and project our values abroad.

We will now take steps to ensure we can sustain our spending on these priorities.

Defence spending will continue to grow.

Starting two years from now, it will grow more slowly.

This year we will increase foreign aid to another record level.

Next year we will freeze spending at that level.

Government expenses

In this Budget we will also take action to ensure government lives within its means.

Starting this year, we will freeze the total amount spent on government salaries, administration and overhead.

We will freeze the overall budget of ministers' offices.

We will encourage members of the House of Commons and the Senate to do the same.

We will introduce legislation to freeze the salaries of the prime minister, ministers, members of Parliament and senators.

We will launch a review of administrative services to improve efficiency and eliminate duplication.

We will also aggressively review all departmental spending to ensure value for money and tangible results.

Canadian families and businesses have accepted the need for restraint.

Fairness requires that government too should have to keep costs under control.

Fairness to Canadians

Fairness also requires that we fulfill our responsibilities, and not pass them off to others.

In this Budget our government is closing unfair tax loopholes.

These loopholes allow a few businesses and individuals to take advantage of hard-working Canadians who pay their fair share..

We are also repeating our promise.

We will not balance the budget at the expense of pensioners.

We will not balance the budget by cutting transfer payments for health care and education or by raising taxes on hard-working Canadians.

We will not pass on an unsustainable debt to our children and grandchildren.

This Budget is based on an average of forecasts from leading private sector economists.

These independent experts agreed that this is a prudent basis for fiscal planning.

In this Budget our government is presenting a clear three-point plan to return to balanced budgets.

First, we will complete our stimulus package on schedule.

Second, we will take specific measures to restrain the growth of program spending.

Third, we will launch a comprehensive review of administrative spending.

The bottom line is encouraging.

In two years' time the deficit will be cut in half.

In three years' time the deficit will be cut by two thirds.

Shortly after that, the deficit will be eliminated.

Advantage Canada

We will balance the budget, but not for its own sake.

A balanced budget over the long term is necessary for economic growth and job creation.

Families understand this; businesses understand this.

We agree that extraordinary times call for extraordinary measures.

There are times when government must step in, to keep our economy moving.

At all times, though, government must remember the true source of our prosperity.

We must promote, not replace, the talent and hard work of Canadians.

We must support, not suppress, their freedom and creativity.

This will allow us to go from strength to strength in good times.

It will enable us to meet challenges in hard times, and come out of them that much stronger.

Canada's history shows what a free people served by good government can accomplish together.

We are at a key moment in that history, as we emerge from the global recession.

Our government means to be a partner in Canada's recovery, not an obstacle to its growth.

These principles have guided our government since we were first elected to office in 2006.

They are the foundation of our broader plan to build a strategic advantage for Canada in the global economy.

We have already come so far since 2006.

Prior to the recession our government paid down the debt—$38 billion, in just three years.

We reduced the GST—a permanent tax reduction that benefits all Canadians, including those who do not earn enough to pay personal income tax.

More than a million low-income Canadians are off the tax rolls altogether.

Families have greater choice in child care, and seniors can split their pension income for tax purposes.

We established the Tax-Free Savings Account—the most important personal savings vehicle since the RRSP.

We are helping people with disabilities and their families to plan for the future, through the Registered Disability Savings Plan.

We have also reduced the federal tax burden on all Canadian taxpayers.

For example, we have reduced the burden on families with incomes between $60,000 and $80,000 by 20 per cent.

We have reduced the burden on families with incomes between $15,000 and $30,000 by more than 50 per cent.

Our government has provided permanent tax relief to Canadian small businesses.

We increased the amount of income eligible for the small-business tax rate from $300,000 to $400,000, and then to $500,000.

The federal general corporate income tax rate is dropping from more than 22 per cent in 2007 to 15 per cent in 2012.

Our government is also cooperating effectively with the provinces to reduce business taxes overall.

As a result, this year Canada will achieve the lowest overall tax rate on new business investment in the G7.

By 2012 Canada will also have the lowest statutory corporate income tax rate in the G7.

The major measures I have just listed are not new, but they are ongoing.

Together they provide a massive and permanent advantage to our economy.

They are creating jobs for Canadians right now.

They will continue to create jobs, good jobs, for generations to come.

Going for gold

The Budget we are presenting today is a Jobs and Growth Budget.

That is what Canadians have told us is needed.

That is the goal of Canada's Economic Action Plan.

This Budget is also a key part of a long-term strategy.

Our government is letting hard-working Canadians keep more of what they earn, to spend on their priorities.

We are giving Canadian businesses the freedom to invest and innovate, to grow and create jobs.

We are helping Canadian workers get the skills they need to thrive in the global economy.

We are building the modern infrastructure on which the jobs of the future will depend.

We are maintaining the sound regulation needed for stability and growth.

We are building Canada's reputation as an investment-friendly country.

A country committed to free and open trade, unburdened by the massive debts and higher taxes of our competitors.

We are shaping an economy that will create more good jobs, and a higher quality of life for all Canadians.

As I said at the outset, we stand today at a crossroads.

We renew our commitment to moving forward.

Challenges remain, but we do not lack for inspiration.

Just days ago, the greatest athletes in the world gathered in the magnificent Western gateway to our Canada.

They came to celebrate excellence, in a great tradition of international fellowship.

They encountered here a breathtaking country, and a decent and generous people.

They also encountered the pride of our nation.

Let us savour the achievements of our Canadian Olympic champions.

Let us look forward to the achievements of our Paralympic champions in the days to come.

Let us take them as our models, a reminder of what we are made of, what Canadians can achieve.

Our future is reflected in their medals.

Let us move forward, hopeful and confident, to realize that future together.

CANADA'S ECONOMIC ACTION PLAN
YEAR 2

THE BUDGET IN BRIEF 2010

Leading the Way on Jobs and Growth

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

March 4, 2010

Budget 2010—Leading the Way on Jobs and Growth

Introduction

Canada has returned to economic growth following the deepest global economic recession since the 1930s. The global recovery, however, remains fragile.

Budget 2010 aims to contribute to this recovery and sustain Canada's economic advantage now and for the future. The budget plan has three broad aims.

First, it confirms $19 billion in new federal stimulus under Year 2 of Canada's Economic Action Plan to create and maintain jobs, complemented by $6 billion from provinces, territories, municipalities and other partners.

Second, it invests in a limited number of new, targeted initiatives to build jobs and growth for the economy of tomorrow, strengthen Canadian innovation, and make Canada a destination of choice for new business investment.

Third, Budget 2010 charts a course to bring Canada's finances back to balance over the medium term and well before any other Group of Seven (G7) country.

By making timely investments that fit firmly within the Government's long-term economic vision for Canada, and thanks to the resilience and ingenuity of Canadians, our country will emerge from the recession with a stronger economic advantage than before.

The Canadian brand will be based on competitive taxes, renewed infrastructure and skills, a strong head start in clean energy, a tariff advantage, less red tape, and a more prominent voice as a global financial sector leader.

Together, we will create a stronger Canada and a stronger economy, now and for the future.

Delivering Year 2 of Canada's Economic Action Plan

Actions taken under Canada's Economic Action Plan have helped ensure the worst of the global recession lies behind us.

However, while a recovery has begun, it remains fragile and too many Canadians remain out of work. This is why the Government will follow through on its commitment to Canadians and its G7 and G20 partners to deliver Year 2 of the stimulus plan.

Over the next fiscal year, Year 2 of the Economic Action Plan will continue to maintain and create jobs, and help Canadian workers and families manage through still difficult economic conditions, including:

- **$3.2 billion in personal income tax relief.** This includes allowing Canadians to earn more income before paying federal income tax and before being subject to higher tax rates. It includes the enhanced Working Income Tax Benefit to strengthen wo rk incentives for low-income Canadians. Tax measures for 2010–11 also include higher child benefits for parents and lower taxes for low and middle-income seniors.
- **Over $4 billion in actions to create and protect jobs.** This includes additional Employment Insurance (EI) benefits and more training opportunities to help unemployed Canadians through this difficult period, and help ensure they are equipped to re-enter the workforce and prosper in the future.
- **$7.7 billion in infrastructure stimulus to create jobs.** This will modernize infrastructure, support home ownership and improve social housing across Canada. This builds on the $8.3 billion investment in infrastructure and housing delivered in 2009–10.
- **$1.9 billion to create the economy of tomorrow.** This investment will help develop and attract talented people, strengthen our capacity for world-leading research, improve commercialization, accelerate private sector investment, enhance the ability of Canadian firms to participate in global markets, and create a more competitive business environment.

- **$2.2 billion to support industries and communities.** This will support adjustment and provide job opportunities in all parts of Canada that have been hit hard by the economic downturn. It provides support for affected sectors, including forestry, agriculture, small business, tourism, shipbuilding and culture. In addition, the proposed elimination of tariffs on manufacturing inputs and machinery and equipment will encourage investment in the manufacturing sector.

Canadians in all regions have already benefited from the implementation of Canada's Economic Action Plan in Year 1:

- Commitments are in place for almost 16,000 projects across the country. Over 12,000 of these projects have begun or have been completed.
- One objective of the Economic Action Plan was to maintain or create 220,000 jobs. The Action Plan is on track. It has contributed to the creation of over 135,000 jobs recorded in Canada since July 2009.

At the same time, the Action Plan will advance the objectives set out in our long-term economic plan, *Advantage Canada*.

New Investments in Jobs and Economic Growth

In addition to delivering Year 2 of Canada's Economic Action Plan, Budget 2010 introduces a limited number of new and targeted actions to protect Canadians from the global recession and create the jobs and economy of tomorrow.

Jobs Protection and Youth Employment Measures

Budget 2010 invests in measures that will directly protect jobs. This includes extensions to work-sharing and investments in training and skills development for youth.

Creating Economic Growth and Jobs Through Innovation

Budget 2010 builds on earlier investments with over $600 million over three years to help develop and attract talented people, to strengthen our capacity for world-leading research and development, and to improve the commercialization of research.

Encouraging Investment and Trade to Create Jobs and Growth

Budget 2010 takes action to improve the environment for investment, enhance competition and reduce barriers for businesses. This includes making Canada a tariff-free zone for manufacturers, by eliminating all remaining tariffs on productivity-improving machinery and equipment and goods imported for further manufacturing in Canada. This initiative, when fully implemented, will provide $300 million in annual duty savings to Canadian business.

Proposed improvements to the international tax system to attract new investment, cuts to red tape for businesses and increased competition for telecommunications will also foster investment and create jobs for Canadians.

Canada will emerge from the recession with a highly competitive tax system

- This year, Canada will have the lowest overall tax rate on new business investment in the G7.
- By 2012, Canada will have the lowest statutory corporate income tax rate in the G7.
- The Government introduced the Tax-Free Savings Account, the most important new vehicle for savings since the introduction of the Registered Retirement Savings Plan.
- The Government introduced the Working Income Tax Benefit, lowering the "welfare wall," making work more attractive for low-income Canadians.
- Canada's federal tax-to-GDP (gross domestic product) ratio is at its lowest level since 1961.

A highly competitive tax system will support the creation of jobs in Canada.

Green Jobs and Growth

Budget 2010 builds on Canada's position as an energy superpower with measures to encourage investments in energy projects and clean energy generation. The budget also includes measures to preserve Canada's natural heritage through environmental protection in the North and further protection of the Great Lakes.

Modernizing Canada's Infrastructure

Budget 2010 strengthens the Government's commitment to rebuild Canada's aging infrastructure by making priority investments in projects designed to ensure that Canadians have access to safe and effective transportation. This includes support for the operations of Atlantic ferry services, investments in federal bridges and new funding for aviation security.

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Canada's financial sector has been widely acknowledged as being one of the strongest in the world. Budget 2010 will further strengthen the sector by moving forward with the majority of provinces and territories toward a Canadian securities regulator, extending access to financing for Canadian businesses, and enhancing disclosure and financial institutions' business practices to better protect consumers.

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Budget 2010 also introduces measures to support single parents and persons with disabilities, makes investments to assist Aboriginal Canadians and their communities, and provides support for participation in sport. Budget 2010 also recognizes those who helped build our country, with measures for military families, investments to recognize the efforts of veterans, and additional support for seniors.

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Canada is a global leader and continuously demonstrates this by honouring its international commitments. The importance of accountability for promises will be a defining feature of Canada's G8 and G20 Summit year. Budget 2010 fulfills Canada's commitment to double international assistance by increasing the International Assistance Envelope by $364 million, bringing it to $5 billion in ongoing annual support.

The Three-Point Plan to Return to Budget Balance

The actions taken by the Government over the last two years are working. Stimulus measures are maintaining and creating jobs and securing the economic recovery. As the economy improves, the Government will refocus its attention on its long-term economic plan. The cornerstone of this plan is a return to balanced budgets.

Budget 2010 outlines a three-point plan for returning to budget balance once the economy has recovered.

- First, the Government will follow through with the exit strategy built into the Economic Action Plan. Temporary measures in the Action Plan will be wound down as planned.
- Second, the Government will restrain spending through targeted measures. Towards achieving this objective, Budget 2010 proposes $17.6 billion in savings over five years.
- Third, the Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.

The Government will not raise taxes and will not cut major transfers to persons and other levels of government.

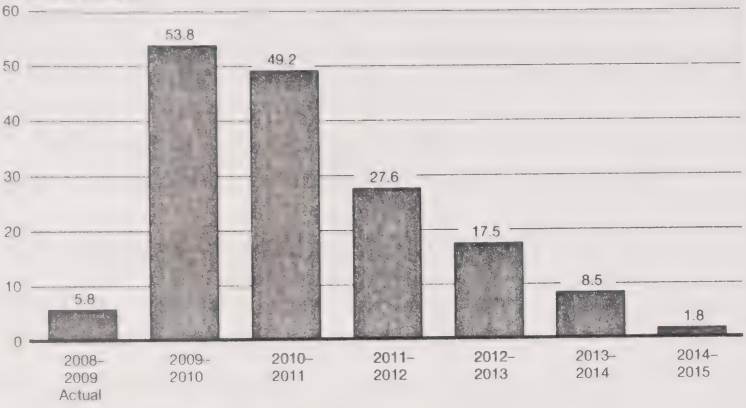
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Canada's fiscal health is the envy of the world. The Government is fully committed to sustaining our fiscal advantage.

Rapid decline in deficits

Chart 1

Federal Budgetary Deficit



Source: Department of Finance.

Highlights

Recent Economic Developments and Prospects

- ✓ The global economy has begun to stabilize after undergoing a deep and synchronized recession, which stemmed from the worst global financial crisis since the 1930s.
- ✓ With support from the extraordinary measures in Canada's Economic Action Plan, the Canadian economy has started to recover.
- ✓ Canada has weathered the global recession better than all other major industrialized countries, reflecting several important financial, economic and fiscal strengths.
- ✓ Canadian labour markets have fared much better than in the U.S., where job losses to date have been proportionately more than three times as large as in Canada.
- ✓ Domestic demand in Canada has also rebounded more strongly than in all other G7 countries since the beginning of 2009.
- ✓ While unemployment remains a concern, the rise in the unemployment rate has been smaller than was initially forecast by private sector forecasters.
- ✓ The Department of Finance conducted a survey of private sector forecasters in December 2009. In early February, private sector forecasters met with the Minister of Finance to discuss the economic forecast from the survey as well as the risks associated with that forecast.
- ✓ The average private sector economic forecast from the December 2009 survey forms the basis of the Government's fiscal planning.
- ✓ The use of private sector forecasts introduces an element of independence into the Government's economic and fiscal forecast.

- ✓ Over the short term, the average private sector economic forecast has improved somewhat since the September 2009 Update of Economic and Fiscal Projections. Private sector forecasters expect the Canadian economic recovery to build momentum through 2010.
- ✓ Private sector forecasters have not materially changed their medium-term outlook since the September Update. Over the medium term, the level of uncertainty surrounding the outlook has declined since the Update but remains high.
- ✓ The average private sector forecast from the December survey provides a prudent basis for fiscal planning.

New Investments in Jobs and Economic Growth

Delivering Year 2 of Canada's Economic Action Plan—$19 Billion in New Stimulus in 2010–11

Budget 2010 will deliver Year 2 of Canada's Economic Action Plan, with $19 billion in new federal stimulus in 2010–11, by:

- ✓ Providing $3.2 billion in personal income tax relief to support growth and job creation.
- ✓ Delivering $1.6 billion to strengthen benefits for the unemployed.
- ✓ Providing $1 billion to enhance training opportunities for all Canadian workers.
- ✓ Freezing the Employment Insurance premium rate at $1.73 per $100 of insurable earnings to the end of 2010—the lowest rate since 1982—in order to leave more money in the hands of employers and employees.
- ✓ Providing $7.7 billion in new stimulus to modernize infrastructure, support home ownership, and improve social housing across Canada.
- ✓ Investing almost $1.9 billion in post-secondary education infrastructure, research, technology innovation and environmental protection.

- ✓ Providing $2.2 billion in stimulus spending to support adjustment and secure job opportunities in regions, communities and industries that have been most affected by the economic downturn.
- ✓ Introducing new measures to strengthen Canada's financial sector, allowing businesses to continue growing and creating jobs.

Building on a Strong Economic Foundation

Jobs Protection and Youth Employment Measures

Budget 2010 builds on the Economic Action Plan with targeted actions to protect Canadian workers from the effects of the global economic recession by:

- ✓ Temporarily extending the maximum length of work-sharing agreements to protect jobs.
- ✓ Supporting the next generation of business leaders with $10 million in new funding for the Canadian Youth Business Foundation.
- ✓ Providing $60 million in 2010–11 to assist more young Canadians while the labour market recovers.
- ✓ Investing $20 million in support of Pathways to Education Canada's work to support disadvantaged youth.
- ✓ Committing $30 million to support better elementary and secondary education outcomes for First Nations students.

Creating Economic Growth and Jobs Through Innovation

Budget 2010 makes targeted changes to improve Canada's productivity growth through innovation by:

- ✓ Providing $45 million over five years to establish a post-doctoral fellowship program to help attract the research leaders of tomorrow to Canada.
- ✓ Delivering $222 million in funding over five years to strengthen the world-leading research taking place at TRIUMF, Canada's premier national laboratory for nuclear and particle physics research.

- ✓ Increasing the combined annual budgets of Canada's research granting councils by an additional $32 million per year, plus an additional $8 million per year to the Indirect Costs of Research Program.
- ✓ Providing Genome Canada with an additional $75 million for genomics research.
- ✓ Doubling the budget of the College and Community Innovation Program with an additional $15 million per year.
- ✓ Providing $135 million over two years to the National Research Council Canada's regional innovation clusters program.
- ✓ Providing $48 million over two years for research, development and application of medical isotopes.
- ✓ Providing a total of $497 million over five years to develop the RADARSAT Constellation Mission.
- ✓ Launching a new Small and Medium-sized Enterprise Innovation Commercialization Program with $40 million over two years.
- ✓ Renewing and making ongoing $49 million in annual funding for the regional development agencies to support innovation across Canada.

Encouraging Investment and Trade to Create Jobs and Growth

Budget 2010 takes further action to improve conditions for investment, enhance competition, and reduce barriers for businesses by:

- ✓ Making Canada a tariff-free zone for industrial manufacturers by eliminating all remaining tariffs on machinery and equipment and goods imported for further manufacturing. When fully implemented, this will provide $300 million in annual duty savings for Canadian business to support investment and growth and create jobs.
- ✓ Improving Canada's system of international taxation to facilitate investment, cut red tape, and streamline the compliance process associated with the taxation of cross-border activity.

- ✓ Establishing a new Red Tape Reduction Commission.
- ✓ Providing $7.2 million over two years to improve Canadian fish and seafood industry access to the international marketplace.
- ✓ Delivering $75 million over three years to support investments by Canadian cattle processing plants to help improve their operations to ensure cattle producers have access to competitive cattle processing operations in Canada.

Green Jobs and Growth

Budget 2010 includes measures to promote energy investments, help develop and deploy clean energy technologies, and protect and enrich Canada's unique environmental heritage by:

- ✓ Establishing the Next Generation Renewable Power Initiative, with $100 million over the next four years to support the development, commercialization and implementation of advanced clean energy technologies in the forestry sector.
- ✓ Modernizing the regulatory system for project reviews, and supporting consultation with Aboriginal peoples on major resource projects.
- ✓ Expanding eligibility for accelerated capital cost allowance for investment in clean energy generation assets.

Modernizing Canada's Infrastructure

Budget 2010 strengthens the Government's already significant investments in Canada's infrastructure by:

- ✓ Providing $175 million over two years to renew Marine Atlantic's fleet and shore facilities and improve its services.
- ✓ Providing $28 million to ensure Atlantic ferry services continue to operate in a safe and reliable condition.
- ✓ Providing $51 million over two years to The Jacques Cartier and Champlain Bridges Incorporated to maintain the safety of Montréal's bridges.

Strengthening the Financial Sector

Budget 2010 introduces measures that will support Canada's strong and competitive financial sector by:

- ✓ Moving forward with the majority of provinces and territories to establish a Canadian securities regulator within the next three years.
- ✓ Extending access to financing through continuation of the Business Credit Availability Program (BCAP) and the creation of the Vehicle and Equipment Financing Partnership under BCAP.
- ✓ Moving ahead with a Code of Conduct for the Credit and Debit Card Industry in Canada and proposing legislation to provide the Minister of Finance with the authority to regulate the market conduct of the credit and debit card networks, if required.
- ✓ Introducing a legislative framework to enable credit unions to incorporate and continue federally, which will promote the continued growth and competitiveness of the sector and enhance financial stability.
- ✓ Enhancing the financial consumer protection framework through new measures to improve the business practices and disclosure regime for federally regulated financial institutions.

Supporting Families and Communities and Standing Up for Those Who Helped Build Canada

Budget 2010 takes action to support vulnerable Canadian families and communities by:

- ✓ Providing $6.6 million to enhance the existing Federal Victims Strategy, including facilitating access to Employment Insurance sickness benefits for families affected by a crime.
- ✓ Improving the taxation of the Universal Child Care Benefit so single parents receive comparable tax treatment to single earner two-parent families.
- ✓ Providing $62 million to support Canada's elite athletes and encourage participation in amateur sport.

- ✓ Reforming the disbursement quota to reduce administrative complexity and better enable charities to focus their time and resources on charitable activities.
- ✓ Improving Registered Disability Savings Plans to allow more flexibility for contributions.
- ✓ Providing $45 million over three years for the Enabling Accessibility Fund to remove barriers for Canadians with disabilities.
- ✓ Providing $199 million to meet higher than expected funding needs in support of the settlement agreement with former students of the Indian residential school system.
- ✓ Providing $53 million to ensure further progress toward a prevention-focused approach to child and family services for First Nations children and parents.
- ✓ Reforming the Food Mail Program to improve access to affordable healthy food for Northerners.

Budget 2010 also stands up for those who helped build Canada by:

- ✓ Providing $2 million for a Community War Memorial Program.
- ✓ Improving access for military families to Employment Insurance parental and sickness benefits.
- ✓ Providing $10 million for the New Horizons for Seniors Program to support projects that focus on volunteering among seniors.
- ✓ Reaffirming the Government's commitment to ensure that Canada's retirement income system remains strong and efficient through spring consultations and a review of policy options at the May Finance Ministers' meeting.

Honouring Canada's International Commitments

Budget 2010 fulfills Canada's commitment to double international assistance by:

- ✓ Increasing the International Assistance Envelope, the principal means by which Canada allocates foreign aid, by $364 million, bringing it to $5 billion in ongoing annual support.
- ✓ Providing a further $800 million of loan resources and $40 million in subsidy resources to support concessional lending to the poorest countries through the International Monetary Fund's Poverty Reduction and Growth Trust.

Plan to Return to Budget Balance and Fiscal Outlook

- ✓ Budget 2010 outlines a three-point plan for returning to budgetary balance over the medium term and well before any other G7 country.
  - First, the Government will follow through with the "exit strategy" built into the Economic Action Plan. Temporary measures in the Action Plan will be wound down as planned.
  - Second, the Government will restrain growth in spending through targeted measures. Towards achieving this objective, Budget 2010 proposes $17.6 billion in savings over five years.
  - Third, the Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.
- ✓ The Government will not raise taxes. The Government will not cut major transfers to persons and other levels of government.
- ✓ As a result of the planned wind-down of the Economic Action Plan and the spending growth restraint measures in this budget, the deficit is projected to be cut by almost half to $27.6 billion in 2011–12, and cut by two-thirds to $17.5 billion in 2012–13.
- ✓ The debt-to-GDP ratio is expected to peak at 35.4 per cent in 2010–11 and then fall to 35.2 per cent in 2011–12 and 31.9 per cent by 2014–15.
- ✓ Program spending as a share of GDP is expected to decline from 15.6 per cent in 2009–10 to 13.2 per cent in 2014–15.

Canada's Economic Action Plan: A Fifth Report to Canadians

- ✓ Canada's Economic Action Plan is delivering a $62-billion shot in the arm to the economy.
- ✓ By the end of this month, most of the $37 billion in planned 2009–10 federal and provincial/territorial stimulus will have flowed into the economy.
- ✓ Since July 2009, over 135,000 jobs have been created across the country.
- ✓ For 2010–11, the Action Plan will deliver a further $19 billion in federal stimulus spending, complemented by $6 billion in stimulus funding from provinces, territories, municipalities and other partners.
- ✓ 92 per cent of 2010–11 funding has been committed.
- ✓ The Government has commitments in place for almost 16,000 projects across the country under the Economic Action Plan. Over 12,000 of these projects have begun or have been completed.
- ✓ Canadians are benefiting from permanent tax relief. As well, millions of Canadian families took advantage of the temporary Home Renovation Tax Credit.
- ✓ Due to unprecedented demand under the ecoENERGY Retrofit – Homes program, the Government is allocating a further $80 million to support additional retrofits by Canadian homeowners. In total, the Government has provided $585 million to the program under the Economic Action Plan.
- ✓ The Government is providing exceptional support for the unemployed, with total Employment Insurance (EI) payments up by more than $6 billion from last year. Enhancements to EI are flowing and continue to be available.

- ✓ The Government has committed all of the funding available for projects under the $4 billion Infrastructure Stimulus Fund.
- ✓ Almost all of the $500 million available under the Recreational Infrastructure Canada program has been committed to almost 2,000 projects across the country to build and upgrade hockey arenas, soccer fields, swimming pools and other community-based recreational facilities. Over 1,500 projects are already underway or completed.
- ✓ Over 3,500 projects are underway to improve social housing and First Nations housing across the country.
- ✓ Under the Knowledge Infrastructure Program, work has begun on 361 projects and an additional 20 projects have been completed.

Chapter 1

Budget 2010 Leading the Way on Jobs and Growth



Introduction

Canada has returned to economic growth following the deepest global economic recession since the 1930s. The global recovery, however, remains fragile.

Budget 2010 aims to contribute to this recovery and sustain Canada's economic advantage now and for the future. The budget plan has three broad aims.

First, it confirms $19 billion in new federal stimulus under Year 2 of Canada's Economic Action Plan, to create and maintain jobs complemented by $6 billion from provinces, territories, municipalities and other partners.

Second, it invests in a limited number of new, targeted initiatives to build jobs and growth for the economy of tomorrow, strengthen Canadian innovation, and make Canada a destination of choice for new business investment.

Third, Budget 2010 charts a course to bring Canada's finances back to balance over the medium term and well before any other Group of Seven (G7) country.

By making timely investments that fit firmly within the Government's long-term economic vision for Canada, and thanks to the resilience and ingenuity of Canadians, our country will emerge from the recession with a stronger economic advantage than before.

The Canadian brand will be based on competitive taxes, renewed infrastructure and skills, a strong head start in clean energy, a tariff advantage, less red tape, and a more prominent voice as a global financial sector leader.

Together, we will create a stronger Canada and a stronger economy, now and for the future.

Delivering Year 2 of Canada's Economic Action Plan

Actions taken under Canada's Economic Action Plan have helped ensure the worst of the global recession lies behind us.

However, while a recovery has begun, it remains fragile and too many Canadians remain out of work. This is why the Government will follow through on its commitment to Canadians and its G7 and G20 partners to deliver Year 2 of the stimulus plan.

Over the next fiscal year, Year 2 of the Economic Action Plan will continue to maintain and create jobs, and help Canadian workers and families manage through still difficult economic conditions, including:

- **$3.2 billion in personal income tax relief.** This includes allowing Canadians to earn more income before paying federal income tax and before being subject to higher tax rates. It includes the enhanced Working Income Tax Benefit to strengthen work incentives for low-income Canadians. Tax measures for 2010–11 also include higher child benefits for parents and lower taxes for low and middle-income seniors.
- **Over $4 billion in actions to create and protect jobs.** This includes additional Employment Insurance (EI) benefits and more training opportunities to help unemployed Canadians through this difficult period, and help ensure they are equipped to re-enter the workforce and prosper in the future.
- **$7.7 billion in infrastructure stimulus to create jobs.** This will modernize infrastructure and support home ownership and improve social housing across Canada. This builds on the $8.3 billion investment in infrastructure and housing delivered in 2009–10.
- **$1.9 billion to create the economy of tomorrow.** This investment will help develop and attract talented people, strengthen our capacity for world-leading research, improve commercialization, accelerate private sector investment, enhance the ability of Canadian firms to participate in global markets, and create a more competitive business environment.
- **$2.2 billion to support industries and communities.** This will support adjustment and provide job opportunities in all parts of Canada that have been hit hard by the economic downturn. It provides support for affected sectors, including forestry, agriculture, small business, tourism, shipbuilding and culture. In addition, the proposed elimination of tariffs on manufacturing inputs and machinery and equipment will encourage investment in the manufacturing sector.

Canadians in all regions have already benefited from the implementation of Canada's Economic Action Plan in year 1:

- Commitments are in place for almost 16,000 projects across the country. Over 12,000 of these projects have begun or have been completed.
- One objective of the Economic Action Plan was to maintain or create 220,000 jobs. The Action Plan is on track. It has contributed to the creation of over 135,000 jobs recorded in Canada since July 2009.

At the same time, the Action Plan will advance the objectives set out in our long-term economic plan, *Advantage Canada*.

New Investments in Jobs and Economic Growth

In addition to delivering Year 2 of Canada's Economic Action Plan, Budget 2010 introduces a limited number of new and targeted actions to protect Canadians from the global recession and create the jobs and economy of tomorrow.

Jobs Protection and Youth Employment Measures

Budget 2010 invests in measures that will directly protect jobs. This includes extensions to work-sharing and investments in training and skills development for youth.

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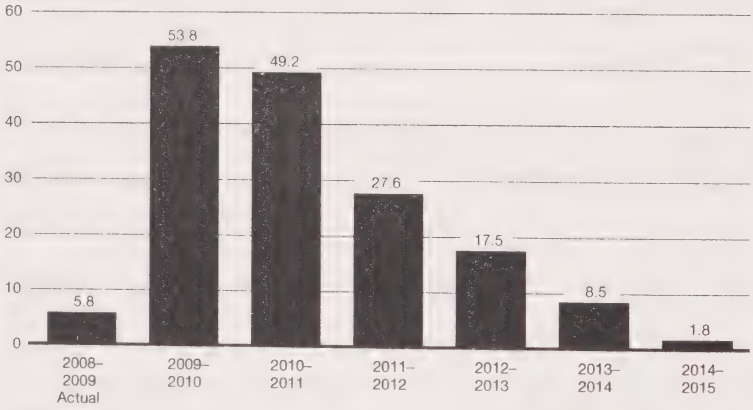
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Rapid decline in deficits

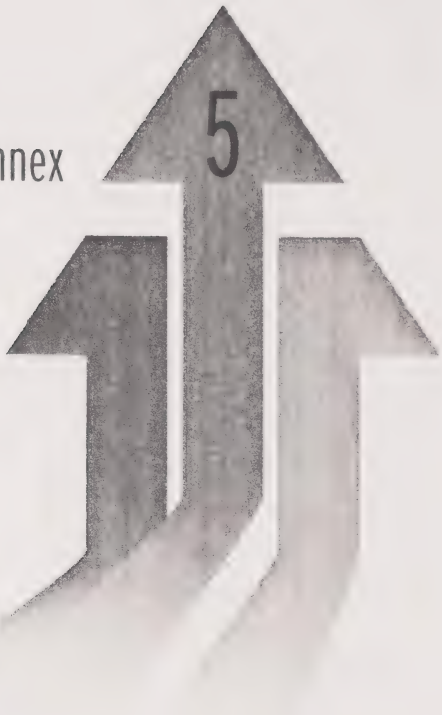
Chart 1.1
Federal Budgetary Deficit



Source: Department of Finance.

Annex 5

Tax Measures: Supplementary Information and Notices of Ways and Means Motions



Tax Measures: Supplementary Information

Overview

This annex provides detailed information on each of the tax measures proposed in the Budget.

Table A5.1 lists these measures and provides estimates of their budgetary impact.

The annex also provides Notices of Ways and Means Motions to amend the *Income Tax Act*, and the regulations thereunder, the *Excise Tax Act*, the *Customs Tariff*, the *Universal Child Care Benefit Act*, the *Excise Act, 2001*, the *Air Travellers Security Charge Act*, the *Canada Pension Plan* and the *Employment Insurance Act*.

Table A5.1

Cost of Proposed Tax and Tariff Measures[1]

	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	Total
	Fiscal Costs (millions of dollars)						
Personal Income Tax Measures							
Benefits Entitlement – Shared Custody	–	–	–	–	–	–	–
Universal Child Care Benefit for Single Parents	–	5	5	5	5	5	25
Medical Expense Tax Credit – Purely Cosmetic Procedures	–	-40	-40	-40	-40	-40	-200
Rollover of RRSP Proceeds to an RDSP	–	–	5	5	5	5	20
Carry Forward of RDSP Grants and Bonds[2]	–	20	70	45	30	10	175
Provincial Payments into RESPs and RDSPs	–	–	–	–	–	–	–
Scholarship Exemption and Education Tax Credit	–	–	–	–	–	–	–
Charities: Disbursement Quota Reform	–	–	–	–	–	–	–
Employee Stock Options	-20	-270	-300	-320	-355	-395	-1,660
U.S. Social Security Benefits	–	5	5	5	5	5	25
Mineral Exploration Tax Credit	–	85	-20	–	–	–	65
Business Income Tax Measures							
Accelerated Capital Cost Allowance for Clean Energy Generation	–	–	–	5	5	10	20
Television Set-top Boxes – Capital Cost Allowance	–	5	5	5	5	5	25
Interest on Overpaid Taxes	–	-45	-100	-140	-170	-190	-645
Federal Credit Unions	–	–	–	–	–	–	–
SIFT Conversions and Loss Trading	–	–	–	–	–	–	–

[1] A "-" indicates a nil amount, a small amount (less than $5 million) or an amount that cannot be determined in respect of a measure that is intended to protect the tax base.

[2] The cost of this measure is attributable to program expenditures.

Table A5.1 *(cont'd)*

Cost of Proposed Tax and Tariff Measures

	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	Total
	Fiscal Costs (millions of dollars)						
International Taxation							
Section 116 and Taxable Canadian Property	–	30	25	25	25	25	130
Refunds under Regulation 105 and Section 116	–	–	–	5	5	5	15
Foreign Tax Credit Generators	–	–	–	–	–	–	–
Foreign Investment Entities and Non-Resident Trusts	–	–	–	–	–	–	–
Sales Tax Measures							
GST/HST and Purely Cosmetic Procedures	–	–	–	–	–	–	–
Simplification of the GST/HST for the Direct Selling Industry	–	–	–	–	–	–	–
Other Tax Measures							
Specified Leasing Property Rules	–	–	–	–	–	–	–
Information Reporting of Tax Avoidance Transactions – Public Consultation	–	–	–	–	–	–	–
Online Notices	–	–	–	–	–	–	–
Tax Evasion and the Proceeds of Crime and Money Laundering Regime	–	–	–	–	–	–	–
Taxation of Corporate Groups	–	–	–	–	–	–	–
Aboriginal Tax Policy	–	–	–	–	–	–	–
Customs Tariff Measures							
Tariff Reductions on Manufacturing Inputs and Machinery and Equipment	17	210	230	252	275	292	1,276

Personal Income Tax Measures

Benefits Entitlement – Shared Custody

Under existing rules, only one eligible individual can receive the Canada Child Tax Benefit and Universal Child Care Benefit in respect of a qualified dependant each month. Similarly, the child component of the Goods and Services Tax/Harmonized Sales Tax Credit (GST/HST credit) is payable in respect of a qualified dependant to only one eligible individual each quarter.

To improve the allocation of child benefits between parents who share custody of a child, Budget 2010 proposes to allow two eligible individuals to receive Canada Child Tax Benefit and Universal Child Care Benefit amounts in a particular month, and two eligible individuals to receive GST/HST credit amounts in respect of a particular quarter, in respect of a child if the recipients would be eligible to receive amounts under the Canada Revenue Agency's existing shared eligibility policy. This policy applies when a child lives more or less equally with two individuals who live separately. The Canada Child Tax Benefit and Universal Child Care Benefit payments will be equivalent to each eligible individual receiving one-half of the annual entitlement that they would receive if they were the sole eligible individual, paid in monthly instalments over the year. The child component of the GST/HST credit will similarly be equivalent to each eligible individual receiving one-half of the annual entitlement that they would receive if they were the sole eligible individual, paid in quarterly instalments over the year.

Corresponding amendments will be made to the *Universal Child Care Benefit Act*.

This measure will apply to benefits payable commencing July 2011.

Universal Child Care Benefit for Single Parents

The Universal Child Care Benefit provides families with $100 a month for each child under the age of six years. In two-parent families, the Universal Child Care Benefit is included in the income of the lower-income spouse or common-law partner. In the case of a single-parent family, the Universal Child Care Benefit is generally included in the single parent's income and taxed at his or her marginal tax rate. As a result, a single parent can pay more tax on Universal Child Care Benefit amounts than a single-earner couple, with the same income, receiving the same Universal Child Care Benefit.

Budget 2010 proposes to allow a single parent the option of including the aggregate Universal Child Care Benefit amount received, in respect of all of his or her children, in the parent's income or in the income of the dependant for whom an Eligible Dependant Credit is claimed. If a single parent is unable to claim an Eligible Dependant Credit, he or she will have the option of including the aggregate Universal Child Care Benefit amount in the income of one of the children for whom the Universal Child Care Benefit is paid.

This measure will apply to the 2010 and subsequent taxation years.

Medical Expense Tax Credit – Purely Cosmetic Procedures

The Medical Expense Tax Credit provides tax recognition for above-average medical and disability-related expenses incurred by individuals. For 2010, the Medical Expense Tax Credit reduces the federal tax of a claimant by 15 per cent of eligible unreimbursed medical expenses in excess of the lesser of $2,024 and three per cent of net income.

An expense is generally eligible to be claimed under the Medical Expense Tax Credit if it is directly related to a disability or a medical condition. An expense is not generally intended to be eligible if it is ordinarily incurred by persons without a disability or a medical condition or has a substantial element of personal consumption and choice.

To ensure consistency with the intent of the Medical Expense Tax Credit, Budget 2010 proposes that expenses incurred for purely cosmetic procedures (including related services and other expenses such as travel) be ineligible to be claimed under the Medical Expense Tax Credit. This generally includes surgical and non-surgical procedures purely aimed at enhancing one's appearance such as liposuction, hair replacement procedures, botulinum toxin injections, and teeth whitening.

A cosmetic procedure, including those identified above, will continue to qualify for the Medical Expense Tax Credit if it is required for medical or reconstructive purposes, such as surgery to ameliorate a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease.

The proposed changes will make the tax treatment of purely cosmetic procedures consistent with that in other jurisdictions, such as the United States, the United Kingdom and Québec.

This measure will apply to expenses incurred after March 4, 2010.

Rollover of RRSP Proceeds to an RDSP

When the annuitant under a Registered Retirement Savings Plan (RRSP) dies, the existing income tax rules generally provide that the value of the RRSP is included in computing the deceased's income for the year of death. However, preferential tax treatment is provided on RRSP distributions made after death to the deceased's surviving spouse or common-law partner, or to children or grandchildren who were financially dependent on the deceased RRSP annuitant. There are two aspects to this preferential tax treatment.

- Distributions of the RRSP proceeds to the deceased's surviving spouse or common-law partner, or to a financially dependent child or grandchild, reduce the amount of the deceased's income and are included in the income of the recipient (these distributions are referred to as "refunds of premiums").
- If a spouse or common-law partner, or a child or grandchild who was dependent on the deceased annuitant because of physical or mental infirmity, receives a refund of premiums, an offsetting deduction allows the refund of premiums to be transferred on a tax-deferred (or "rollover") basis to the RRSP of the recipient, or used to purchase an immediate life annuity.

Similar rules also apply in respect of Registered Retirement Income Fund (RRIF) proceeds and certain lump-sum amounts paid from Registered Pension Plans (RPPs). For the purposes of this supplementary information, "RRSP proceeds" also refers to RRIF and lump-sum RPP proceeds and "RRSP annuitant" also refers to a RRIF annuitant and an RPP member.

Registered Disability Savings Plans (RDSPs) were introduced in Budget 2007 to help parents and others save for the long-term financial security of a child with a severe disability. An RDSP is a tax-assisted savings vehicle in which investment income accumulates tax-free. Canada Disability Savings Grants and Canada Disability Savings Bonds may also be paid by the government into the RDSP. Canada Disability Savings Grants, Canada Disability Savings Bonds and investment income are included in the beneficiary's income for tax purposes when paid out of the RDSP.

Budget 2010 proposes to extend the existing RRSP rollover rules to allow a rollover of a deceased individual's RRSP proceeds to the RDSP of a financially dependent infirm child or grandchild.

An individual who qualifies to be an RDSP beneficiary and who meets the age and residency requirements for RDSP contributions will be eligible to roll over RRSP proceeds received as a result of the death of their parent or grandparent to their RDSP if the requirements under the existing RRSP rollover rules are satisfied (that is, if the RDSP beneficiary was financially dependent on the deceased individual by reason of physical or mental infirmity). An infirm child or grandchild is generally considered to be financially dependent if the child's income for the year preceding the year of death did not exceed a specified threshold ($17,621 for 2010). An infirm child with income above this amount may also be considered to be financially dependent, but only if the dependency can be demonstrated based on the particular facts.

The amount of RRSP proceeds rolled over into an RDSP will not be permitted to exceed the beneficiary's available RDSP contribution room. The lifetime contribution limit for RDSPs is $200,000. The rolled-over proceeds will reduce the beneficiary's RDSP contribution room, but will not attract Canada Disability Savings Grants. These proceeds will be considered private contributions for the purpose of determining whether an RDSP is a primarily government-assisted plan (a plan where Canada Disability Savings Grants and Canada Disability Savings Bonds paid to the plan exceed private contributions made to the plan, and which is consequentially subject to a number of additional requirements). Since the amount of RRSP proceeds rolled over to an RDSP will not have been subject to income tax, the amount will form part of the portion of a disability assistance payment that is included in the beneficiary's income when withdrawn from the RDSP.

The RDSP beneficiary or his or her legal representative will be required to make an election in prescribed form to transfer the RRSP proceeds to the RDSP on a rollover basis. The election would be made at the time of the RDSP contribution and filed with both the Canada Revenue Agency and Human Resources and Skills Development Canada by the RDSP issuer.

These measures will be effective for deaths occurring on or after March 4, 2010.

Transitional Rules

Where the death of an RRSP annuitant occurs after 2007 and before 2011, special transitional rules will allow a contribution to be made to the RDSP of a financially dependent infirm child or grandchild of the annuitant that would provide a result that is generally equivalent to the proposed measures.

As with the general measures, the transitional rules will be available in respect of RDSP contributions by or for an individual who qualifies to be an RDSP beneficiary and who meets the age and residency requirements for RDSP contributions. This will effectively allow the proposed measure to apply as of January 1, 2008 – the date that RDSPs were first permitted to be established under the income tax rules. In cases of deaths after March 3, 2010 and before 2011, taxpayers may use either the general measures or the transitional rules. This will accommodate situations where taxpayers may not have had an opportunity to adjust their estate planning to take advantage of the general measures.

The transitional rules will allow an eligible individual to make an election to contribute up to the amount of a deceased annuitant's RRSP proceeds to the RDSP of a child who is an infirm child or grandchild of the deceased annuitant and who was financially dependent on the deceased annuitant, subject to available RDSP contribution room. For these purposes, an "eligible individual" will be a beneficiary of the deceased RRSP annuitant's estate or a person who received an amount of the deceased's RRSP proceeds directly on the death of the annuitant. An offsetting deduction will be provided either on the deceased annuitant's terminal tax return or on that of the eligible individual making the contribution, as the case may be, provided the contribution is made before 2012. As with the general measures, an election would be required to be made in prescribed form at the time of the RDSP contribution and filed with both the Canada Revenue Agency and Human Resources and Skills Development Canada by the RDSP issuer.

To allow time for financial institutions and Human Resources and Skills Development Canada to adjust their RDSP systems, RDSP contributions benefiting from the proposed rollover measure cannot be made before July 2011.

Carry Forward of RDSP Grants and Bonds

The Registered Disability Savings Plan (RDSP) was introduced in Budget 2007 to better enable parents and others to ensure the long-term financial security of a child with a severe disability. The Government of Canada supports these plans by providing Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs).

Annual RDSP contributions attract CDSGs of up to $3,500, depending on the beneficiary's family income and the amount contributed, up to a lifetime limit of $70,000. The family income ranges and the corresponding maximum annual CDSGs are set out in Table A5.2.[1]

In addition, CDSBs of up to $1,000 annually are provided to RDSPs established by low- and modest-income families, based on a beneficiary's family income, up to a lifetime limit of $20,000. The amount of the CDSB begins to be phased out for incomes above $23,855 and is fully phased-out at $40,970 (for 2010). Beneficiaries are currently unable to carry forward unused CDSG and CDSB entitlements to future years.

Table A5.2

Maximum Annual Canada Disability Savings Grants

Family Income[1] ($)	
Up to 81,941	Over 81,941
300% on the first $500 200% on the next $1,000	100% on the first $1,000

[1] Family net income thresholds are in 2010 dollars. These income thresholds are indexed to inflation.

In recognition of the fact that families of children with disabilities may not be able to contribute regularly to their plans, Budget 2010 proposes to amend the *Canada Disability Savings Act* to allow a 10-year carry forward of CDSG and CDSB entitlements.

Upon opening an RDSP, CDSB entitlements will be determined and paid into the plan for the preceding 10 years (not before 2008, the year RDSPs became available), based on the beneficiary's family income in those years. Balances of unused CDSG entitlements will also be determined and maintained for the same period. CDSGs will be paid on unused entitlements, up to an annual maximum of $10,500.

[1] Budget 2009 increased the two lowest personal income tax brackets above their indexed values. Consequential changes will be made to the family income thresholds used to determine eligibility for Canada Education Savings Grants, Canada Disability Savings Grants, and Canada Disability Savings Bonds to ensure that these thresholds correspond to the income tax brackets. These changes will apply to the 2009 and subsequent contribution years.

The matching rate on unused CDSG entitlements will be the same as that which would have applied had the contribution been made in the year in which the entitlement was earned. Matching rates on RDSP contributions will be paid in descending order, with contributions using up any grant entitlements at the highest available matching rate first, followed by any grant entitlements at lower rates. Plan holders will receive annual statements of CDSG entitlements.

The carry forward will be available starting in 2011.

Benefits of the RDSP Carry Forward: An Example

Roger, who is a low-income adult who has been eligible for the Disability Tax Credit his whole life, opens an RDSP in 2011.

In each of 2008 (the year RDSPs became available), 2009, 2010 and 2011, Roger will have accumulated $500 in grant entitlements at a 300-per cent matching rate, $1,000 in grant entitlements at a 200-per-cent matching rate, and $1,000 in CDSB entitlements based on his family income.

When Roger opens an RDSP in 2011, his RDSP will automatically receive $4,000 in CDSBs.

After the RDSP is opened, Roger's family contributes $400 to his plan in 2011, for which his RDSP receives $1,200 in CDSGs. Roger carries forward $1,600 in unused grant entitlements at the 300-per-cent rate and $4,000 in unused grant entitlements at the 200 per-cent-rate. When these unused entitlements are added to his grant entitlements for 2012, Roger has $2,100 in grant entitlements at the 300-per-cent matching rate and $5,000 in grant entitlements at the 200-per-cent matching rate.

In 2012, Roger's family contributes $3,000 to his RDSP. The first $2,100 of this contribution uses up Roger's grant entitlements at the 300-per-cent matching rate. The next $900 is matched at the 200-per-cent matching rate. In total, Roger's RDSP receives $8,100 in CDSGs in 2012. In addition, his RDSP receives a CDSB of $1,000 based on his bond entitlements for 2012.

Grant and Bond Entitlements Example

Year	Contributions	Accumulated grant entitlements			CDSGs paid	Accumulated bond entitlements	CDSBs paid
		300%	200%	100%			
			($)				
2008	–	500	1,000	0	–	1,000	–
2009	–	1,000	2,000	0	–	2,000	–
2010	–	1,500	3,000	0	–	3,000	–
			RDSP opened				
2011	400	1,600	4,000	0	1,200	0	4,000
2012	3,000	0	4,100	0	8,100	0	1,000
Total	**3,400**				**9,300**		**5,000**

Provincial Payments into RESPs and RDSPs

The Government of Canada provides financial assistance to Canadian families saving for their children's education through Registered Education Savings Plans and the associated Canada Education Savings Grants and Canada Learning Bond. It also helps families with severely disabled children save for their children's long-term financial security through Registered Disability Savings Plans and the associated Canada Disability Savings Grants and Canada Disability Savings Bonds.

Provincial and territorial governments may also support the efforts of parents to save by making payments into Registered Education Savings Plans and Registered Disability Savings Plans. These provincial programs receive the same treatment as federal grants and bonds paid into these plans – they do not use up a beneficiary's Registered Education Savings Plan or Registered Disability Savings Plan contribution room and they do not attract federal grants. Under the current rules, provincial initiatives that are not administered by the federal government have to be prescribed in order to be treated as provincial programs, which can create uncertainty about the status of payments from these programs.

Budget 2010 proposes to clarify that all payments made to a Registered Education Savings Plan or a Registered Disability Savings Plan through a program funded, directly or indirectly, by a province or administered by a province will be treated the same way as federal grants and bonds and will therefore not themselves attract or reduce federal grants and bonds.

In the case of programs that are administered by a province, this measure will apply to payments made after 2006. In the case of programs that are not administered by a province, this measure will apply to payments made after 2008.

Scholarship Exemption and Education Tax Credit

Budget 2006 introduced a full tax exemption for post-secondary scholarships, fellowships and bursaries to help foster academic excellence by providing tax relief to post-secondary students. The scholarship exemption applies to amounts received in connection with the student's enrolment in an educational program that entitles the student to the Education Tax Credit. The Education Tax Credit is generally available in respect of programs at the post-secondary level, and programs at educational institutions that are certified by the Minister of Human Resources and Skills Development as providing skills in an occupation.

Budget 2010 proposes to clarify that a post-secondary program that consists principally of research will be eligible for the Education Tax Credit, and the scholarship exemption, only if it leads to a college or CEGEP diploma, or a bachelor, masters or doctoral degree (or an equivalent degree). Accordingly, post-doctoral fellowships will be taxable.

Occupational training programs certified by the Minister of Human Resources and Skills Development will continue to qualify for the Education Tax Credit.

Budget 2010 also proposes that an amount will be eligible for the scholarship exemption only to the extent it can reasonably be considered to be received in connection with enrolment in an eligible educational program for the duration of the period of study related to the scholarship.

If a scholarship, fellowship or bursary amount is provided in connection with a part-time program, it is proposed that the scholarship exemption be limited to the amount of tuition paid for the program plus the costs of program-related materials, except if the part-time program is undertaken by a student entitled to the Disability Tax Credit or a student who cannot be enrolled on a full-time basis because of a mental or physical impairment.

The proposed measures will help ensure that the scholarship exemption for post-secondary scholarships, fellowships and bursaries remains targeted to its original purpose. The measures will apply to the 2010 and subsequent taxation years.

Charities: Disbursement Quota Reform

Background

It is estimated that Canadian individuals will receive $2.4 billion in federal tax relief on charitable donations of $8.8 billion in 2009. In addition, corporations benefit from a deduction with respect to charitable donations.

Charitable activities are not defined in the *Income Tax Act*; instead, the meaning of charitable purposes and charitable activities in Canada is largely determined by jurisprudence. Charities must devote their resources to charitable purposes. The *Income Tax Act* specifies requirements for registration as a charity as well as grounds for revocation of that status. The Canada Revenue Agency determines the eligibility of an organization to be a registered charity for federal income tax purposes, based on an examination of the organization's purposes and activities. In addition, charities are subject to corporate and trust law.

The disbursement quota was introduced in 1976 to help curtail fundraising costs and limit capital accumulation. The disbursement quota is intended to ensure that a significant portion of a registered charity's resources are devoted to charitable purposes.

In general terms, the disbursement quota requires that the amount a charity spends each year on charitable activities (including gifts to qualified donees) be at least the sum of:

- 80 per cent of the previous year's tax-receipted donations plus other amounts relating to enduring property and transfers between charities (in other words, a "charitable expenditure rule"); and
- 3.5 per cent of all assets not currently used in charitable programs or administration, if these assets exceed $25,000 (in other words, a "capital accumulation rule").

Some have observed that the impact of the charitable expenditure rule can vary considerably, for reasons unrelated to the manner in which a charity conducts its charitable activities. For example, some charities have a wide range of revenue sources from which to fund their charitable activities, such as grants received from governments and revenues from related business activities. Since all charitable expenditures count toward meeting the disbursement quota, these charities have little difficulty satisfying it even if they do not spend their tax-receipted donations on charitable activities. In contrast, the rule is much more constraining on many small and rural charities that rely mainly on tax-receipted donations.

Stakeholders such as Imagine Canada have called for the elimination of the disbursement quota because it imposes "an unduly complex and costly administrative burden on charities - particularly small and rural charities" and it constrains the flexibility of charities, without achieving its core purpose of limiting spending on fundraising and non-charitable activities.

Recent legislative and administrative initiatives have strengthened the Canada Revenue Agency's ability to ensure that a charity's fundraising and other practices are appropriate. For example, the Canada Revenue Agency publication "Fundraising by Registered Charities" provides guidance for charities on acceptable fundraising practices.

The Canada Revenue Agency may impose sanctions or revoke the registration of a charity in situations where charities use their funds inappropriately, such as in cases where there is undue private benefit. These tools provide a more effective and direct means to fulfill the objectives of the charitable expenditure rule of the disbursement quota.

Budget 2010 proposes to reform the disbursement quota for fiscal years that end on or after March 4, 2010. Specifically, Budget 2010 proposes to:

- repeal the charitable expenditure rule;
- modify the capital accumulation rule; and
- strengthen related anti-avoidance rules for charities.

The Government will monitor the effectiveness of the Canada Revenue Agency's guidance on "Fundraising by Registered Charities", and take action if needed to ensure its stated objectives are achieved.

Repeal of Charitable Expenditure Rule

Budget 2010 proposes to repeal the charitable expenditure rule. Consequently, provisions relating to a number of concepts will no longer be required to calculate the disbursement quota:

- enduring property (gifts to a charity for endowments or multi-year charitable projects which are not subject to the charitable expenditure rule);
- the capital gains reduction and the capital gains pool (provisions that ensure that capital gains realized from the disposition of enduring property are not subject to the charitable expenditure rule and the capital accumulation rule);
- specified gifts (a provision that allows charities with disbursement excesses to help charities with disbursement shortfalls to meet their disbursement quota requirements); and
- exclusions from the calculation of the base to which the 3.5-per-cent disbursement rate is applied (provisions that ensure that funds subject to the charitable expenditure rule are not also subject to the capital accumulation rule).

Budget 2010 also proposes to amend the existing rule that provides the Canada Revenue Agency with the discretion to allow charities to accumulate property for a particular purpose, such as a building project. The existing provision states that property accumulated after approval from the Canada Revenue Agency and any income earned in respect of that property is deemed to have been spent on charitable activities. This rule will require amendment in the absence of the charitable expenditure rule. In order to allow a charity to accumulate property for a particular project, the Canada Revenue Agency will be given the discretion to exclude the accumulated property from the capital accumulation rule calculation.

Modify the capital accumulation component

There is currently an exemption from the capital accumulation rule for charities having $25,000 or less in assets not used in charitable programs or administration. Budget 2010 proposes to increase this threshold to $100,000 for charitable organizations. This increase will reduce the compliance burden on small charitable organizations and provide them with greater ability to maintain reserves to deal with contingencies. The threshold for charitable foundations will remain at $25,000.

The amount of all assets not currently used in charitable programs or administration, for the purpose of the capital accumulation rule in the disbursement quota, is subject to a calculation provided for in the *Income Tax Regulations*. This calculation requires a technical amendment to clarify that it applies both to charitable foundations and charitable organizations.

Strengthen anti-avoidance rules

Budget 2010 proposes to extend existing anti-avoidance rules to situations where it can reasonably be considered that a purpose of a transaction was to delay unduly or avoid the application of the disbursement quota.

Budget 2010 proposes provisions to ensure that amounts transferred between non-arm's length charities will be used to satisfy the disbursement quota of only one charity. It is proposed that a recipient charity, in such circumstances, be required to spend the full amount transferred on its own charitable activities, or to transfer the amount to a qualified donee with which it deals at arm's length, in the current or subsequent taxation year. Alternatively, the transferring charity will be able to elect that the amount transferred will not count towards satisfying its disbursement quota, in which case the recipient charity would not be subject to the immediate disbursement requirement under the anti-avoidance rules.

Employee Stock Options

Budget 2010 proposes the following measures associated with the tax treatment of employee stock options.

Stock Option Cash Outs

If an employee acquires a security of his or her employer under a stock option agreement in the course of his or her employment, the difference between the fair market value of the security at the time the option is exercised and the amount paid by the employee to acquire the security is treated as a taxable employment benefit. If certain conditions are met, the employee is entitled to a deduction equal to one-half of the employment benefit (the stock option deduction).

The stock option deduction results in the taxation of stock option benefits at capital gains tax rates, and as such provides Canadian businesses with a valuable tool to attract and retain highly-skilled workers. In 2007, about 78,000 employees took advantage of the deduction, claiming an average amount of $53,000; three-quarters of the aggregate value of the deduction was claimed by individuals earning more than $500,000.

Table A5.3

Distribution of stock option deduction by income (2007)

		Stock option deduction claimed		
Individual's total income[1] ($)	Number of individuals claiming a stock option deduction	Average amount ($)	Aggregate amount ($ millions)	% of total
Under 100,000	32,483	3,000	100	2%
100,000 to 500,000	38,034	23,000	890	22%
Over 500,000	7,985	393,000	3,140	75%
Total	78,502	53,000	4,130	100%

[1] Including stock option benefits

Source: Tax filer data for the 2007 taxation year.
Numbers may not add due to rounding.

Given the considerable tax benefits provided by the stock option deduction, particularly to high-income individuals, it is important to ensure that it is used in a manner consistent with its intended policy objectives.

The tax rules currently ensure that, when an employee acquires securities under a stock option agreement, only one deduction (at the employee level) is provided. This is because employers are, in this context, prevented from claiming a tax deduction for the issuance of a security.

It is possible, however, to structure employee stock option agreements so that, if employees dispose of ("cash out") their stock option rights for a cash payment from the employer (or other in-kind benefit), the employment benefit is eligible for the stock option deduction while the cash payment is fully deductible by the employer.

Budget 2010 proposes to prevent both the stock option deduction and a deduction by the employer from being claimed for the same employment benefit. To this effect, the stock option deduction will generally be available to employees only in situations where they exercise their options by acquiring securities of their employer. An employer may continue to allow employees to cash out their stock option rights to the corporation without affecting their eligibility for the stock option deduction provided the employer makes an election to forgo the deduction for the cash payment. This will ensure a comparable tax rate with that available on other compensation, when considered on a total employer-employee basis.

Table A5.4

Federal tax collected on $100 of employment benefit ($)

	Type of benefit				
			Stock option cash out		
			Current	*Proposed*	
	Bonus/ Salary	**Stock option exercise**		*With election*	*Without election*
Employee[1]	29	14.5	14.5	14.5	29
Employer[2]	0	18	0	18	0
Total	29	32.5	14.5	32.5	29

[1] Assumed to be taxed at 29 per cent (the highest federal personal income tax rate).

[2] Assumed to be taxed at 18 per cent (the general federal corporate income tax rate for 2010).

The proposed measure will also help preserve symmetry in the tax treatment of stock-based compensation: that is, where preferential tax treatment is provided to the employee on stock-based benefits, the employer is generally not allowed a tax deduction for the cost of such benefits.

Table A5.5

Tax treatment of stock-based compensation at the employer and employee level - Canada and United States

Type of Plan	Tax treatment of benefit	
	Employer	Employee
Canada		
Employee stock option plans	No deduction	50-per-cent deduction[1]
Cash incentive plans (e.g. phantom stock option plan)	Deduction	Full income inclusion
Share purchase plans	Deduction	Full income inclusion
Stock option cash outs		
Current	Deduction	50-per-cent deduction
Proposed (without election)	Deduction	Full income inclusion
Proposed (with election)	No deduction	50-per-cent deduction
U.S.		
Statutory (incentive) stock option plans[2]	No deduction	Capital gains treatment
Non-qualifying stock option plans	Deduction	Full income inclusion
Stock option plan cash outs	Deduction	Full income inclusion

[1] To qualify for the 50-per-cent deduction stock options have to meet certain general eligibility conditions (i.e. the option has to provide a right to purchase common shares, at a price that is no less than the fair market value of these shares at the time the option is granted, and the employee has to deal at arm's length with the employer).

[2] There are a number of eligibility conditions and limitations associated with the use of these plans including a two-year minimum combined holding period for the option and acquired shares (with a one-year minimum holding period specifically applicable to the acquired shares), and annual vesting limits ($25,000 for qualifying share purchase plans and $100,000 for qualifying stock option plans). These restrictions significantly reduce the attractiveness of statutory plans and their use. As a result, non-qualifying plans are the most commonly used type of employee stock option plan in the U.S.

Budget 2010 also proposes to amend the income tax rules to clarify that the disposition of rights under a stock option agreement to a non-arm's length person results in an employment benefit at the time of disposition (including cash out). Although the Government considers that these benefits are taxable in these circumstances under existing tax rules, the Government also believes that clarification of these rules is warranted.

These measures will apply to dispositions of employee stock options that occur after 4:00 p.m. Eastern Standard Time on March 4, 2010.

Tax Deferral Election and Remittance Requirement

The benefit arising when an employee acquires securities under a stock option agreement is treated as employment income for tax purposes. Any subsequent change in the value of the optioned securities is treated separately as a capital gain or loss upon disposition of securities. This treatment recognizes that once employees acquire securities through a stock option they are in a position similar to that of other individuals who acquire securities directly in the market.

Under certain conditions, an employee of a publicly-traded company may elect to defer the recognition of the employment benefit for tax purposes until the disposition of the optioned securities. This election is available for benefits in respect of up to $100,000 of an employee's qualifying stock options vesting in a particular year. Gains or losses realized on the optioned securities continue to be treated separately from the employment benefit as capital income.

If an employee elects to defer recognition of the employment benefit and the value of the optioned securities subsequently decreases, the employee may not have sufficient proceeds from the disposition of the securities to satisfy his or her tax obligation on the employment benefit, which can create financial difficulties for some individuals.

Budget 2010 proposes to repeal the tax deferral election and to clarify existing withholding requirements to ensure that an amount in respect of tax on the value of the employment benefit associated with the issuance of a security is required to be remitted to the government by the employer. This amount will be added to the employer's remittances of tax withheld at source in respect of all employee salary and benefits, including other in-kind benefits, for the period that includes the date on which the security was issued or sold. These measures will prevent situations in which an employee is unable to meet his or her tax obligation as a result of a decrease in the value of these securities.

The repeal of the tax deferral election will apply to employee stock options exercised after 4:00 p.m. Eastern Standard Time on March 4, 2010.

The clarifications to remittance requirements will apply to benefits arising on the issuance of securities after 2010, to provide time for businesses to adjust their compensation arrangements and payroll systems.

The proposed tax remittance measure will not apply in respect of options granted before 2011 pursuant to an agreement in writing entered into before 4:00 p.m. Eastern Standard Time on March 4, 2010 where the agreement included, at that time, restrictions on the disposition of the optioned securities.

Special Relief for Tax Deferral Elections

Some taxpayers who took advantage of the tax deferral election on stock options introduced in Budget 2000 have experienced financial difficulties as a result of a decline in the value of the optioned securities to the point that the value of the securities is less than the deferred tax liability on the underlying stock option benefit.

To provide relief for taxpayers in these situations, Budget 2010 proposes to introduce a special elective tax treatment for affected taxpayers who elected under the current rules to defer taxation of their stock option benefits until the disposition of the optioned securities. In effect, the special elective treatment will ensure that the tax liability on a deferred stock option benefit does not exceed the proceeds of disposition of the optioned securities, taking into account tax relief resulting from the use of capital losses on the optioned securities against capital gains from other sources.

In any year in which a taxpayer is required to include in income a qualifying deferred stock option benefit, the taxpayer may elect to pay a special tax for the year equal to the taxpayer's proceeds of disposition[2], if any, from the sale or other disposition of the optioned securities. Where such an election is made:

- the taxpayer will be able to claim an offsetting deduction equal to the amount of the stock option benefit; and
- an amount equal to half of the lesser of the stock option benefit and the capital loss on the optioned securities will be included in the taxpayer's income as a taxable capital gain. That gain may be offset by the allowable capital loss on the optioned securities, provided this loss has not been otherwise used.

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[2] The special tax will be equal to two-thirds of such proceeds for residents of Québec.

Only stock option benefits for which an election to defer taxation has been made will qualify for this special elective tax treatment. In addition:

- individuals who disposed of their optioned securities before 2010 will have to make an election for this special treatment on or before their filing-due date for the 2010 taxation year (generally April 30, 2011); and
- individuals who have not disposed of their optioned securities before 2010 must do so before 2015. They will then have until their filing-due date for the taxation year of disposition to make an election for this special treatment.

This special tax treatment will provide relief for federal income tax liabilities on qualifying deferred stock option benefits, and provincial and territorial income tax on those benefits for residents of provinces and territories participating in a Tax Collection Agreement. Amendments will be made to allow for the sharing of the special tax with provinces and territories.

U.S. Social Security Benefits

Prior to 1996, pursuant to the Canada-United States Tax Convention (1980), Canadian residents receiving benefits under the social security legislation in the United States, including tier 1 railroad retirement benefits but not including unemployment benefits ("U.S. Social Security benefits"), were required to include only 50 per cent of those benefits in computing income. Changes made to the Canada-U.S. Tax Convention effective beginning in 1996 increased the inclusion rate for U.S. Social Security benefits to 85 per cent from 50 per cent.

Budget 2010 proposes to reinstate the 50-per-cent inclusion rate for Canadian residents who have been in receipt of U.S. Social Security benefits since before January 1, 1996 and for their spouses and common-law partners who are eligible to receive survivor benefits.

This measure will apply to U.S. Social Security benefits received on or after January 1, 2010.

Mineral Exploration Tax Credit

Flow-through shares allow companies to renounce or "flow through" tax expenses associated with their Canadian exploration activities to investors, who can deduct the expenses in calculating their own taxable income. This facilitates the raising of equity to fund exploration by enabling companies to sell their shares at a premium. The mineral exploration tax credit is an additional benefit, available to individuals who invest in flow-through shares, equal to 15 per cent of specified mineral exploration expenses incurred in Canada and renounced to flow-through share investors.

Budget 2010 proposes to extend eligibility for the mineral exploration tax credit for one year, to flow-through share agreements entered into on or before March 31, 2011. Under the existing "look-back" rule, funds raised in one calendar year with the benefit of the credit can be spent on eligible exploration up to the end of the following calendar year. Therefore, for example, funds raised with the credit during the first three months of 2011 can support eligible exploration until the end of 2012.

Mineral exploration, as well as new mining and related processing activity that could follow from successful exploration efforts, can be associated with a variety of environmental impacts to soil, water and air. All such activity, however, is subject to applicable federal and provincial environmental regulations, including project-specific environmental assessments where required.

Business Income Tax Measures

Accelerated Capital Cost Allowance for Clean Energy Generation

Under the capital cost allowance (CCA) regime in the income tax system, Class 43.2 of Schedule II to the *Income Tax Regulations* provides accelerated CCA (50 per cent per year on a declining balance basis) for specified clean energy generation and conservation equipment. The class incorporates by reference a detailed list of eligible equipment that generates or conserves energy by:

- using a renewable energy source (for example, wind, solar, small hydro);
- using fuels from waste (for example, landfill gas, wood waste, manure); or
- making efficient use of fossil fuels (for example, high efficiency cogeneration systems, which simultaneously produce electricity and useful heat).

Providing accelerated CCA in this context is an explicit exception to the general practice of setting CCA rates based on the useful life of assets. Accelerated CCA provides a financial benefit by deferring taxation. This incentive for investment is premised on the environmental benefits of low-emission or no-emission energy generation equipment.

Accelerated CCA for Clean Energy Generation

Class 43.2 was introduced in 2005 and is currently available for assets acquired on or after February 23, 2005 and before 2020. For assets acquired before February 23, 2005, accelerated CCA is provided under Class 43.1 (30 per cent). The eligibility criteria for these two classes are generally the same, except that cogeneration systems that use fossil fuels must meet a higher efficiency standard for Class 43.2 than for Class 43.1. Systems that only meet the lower efficiency standard are eligible for Class 43.1.

Class 43.2 includes a variety of stationary clean energy generation or conservation equipment that is used to produce electricity or thermal energy, or used to produce certain fuels from waste that are in turn used to produce electricity or thermal energy. Subject to detailed rules in the regulations, eligible equipment includes:

Electricity

- High efficiency cogeneration equipment;
- Wind turbines;
- Small hydroelectric facilities;
- Fuel cells;
- Photovoltaic equipment;
- Wave and tidal power equipment;
- Equipment that generates electricity using geothermal energy; and
- Equipment that generates electricity using an eligible waste fuel.

Accelerated CCA for Clean Energy Generation *(cont'd)*

Thermal Energy

- Active solar equipment;
- Ground source heat pump equipment;
- District energy equipment that distributes thermal energy from cogeneration;
- Equipment that generates heat for an industrial process or a greenhouse using an eligible waste fuel; and
- Heat recovery equipment used in electricity generation and industrial processes.

Fuels from Waste

- Equipment that recovers landfill gas or digester gas;
- Equipment used to convert biomass into bio-oil; and
- Equipment used to produce biogas through anaerobic digestion.

If the majority of tangible property in a project is eligible for inclusion in Class 43.2, then certain intangible project start-up expenses (for example, engineering and design work and feasibility studies) are treated as Canadian Renewable and Conservation Expenses. These expenses may be deducted in full in the year incurred, carried forward indefinitely for use in future years, or transferred to investors using flow-through shares.

Budget 2010 proposes to expand Class 43.2 to include: (a) heat recovery equipment used in a broader range of applications; and (b) distribution equipment used in district energy systems that rely primarily on ground source heat pumps, active solar systems or heat recovery equipment.

Heat Recovery Equipment

Heat recovery equipment recovers thermal waste for re-use in order to conserve energy or reduce energy requirements. For example, heat generated in the course of an industrial process can be recovered and then recycled into that process or used for space heating purposes.

Currently, heat recovery equipment in Class 43.2 is limited to that used in the recovery of heat from electrical or cogeneration equipment for reuse by such equipment to generate electricity, or in the recovery of heat generated directly in an industrial process for reuse directly in an industrial process.

Budget 2010 proposes to expand Class 43.2 to include a broader range of heat recovery equipment by removing the restrictions that require the recovered heat to be reused in a process of the same type that generated it. This will allow recovered heat to offset energy otherwise used for other productive purposes. This will encourage, for example, the installation of equipment to capture waste heat generated by a boiler in an industrial process for use in heating the plant and nearby buildings. Eligible assets will encompass only those used to extract thermal waste and will not include:

- any part of a building;
- assets related to heating water for use in a swimming pool; or
- assets employed in re-using the recovered heat (such as property that is part of the internal heating or cooling system of a building, or electrical generating equipment), though such assets may in some cases be included in another provision of Class 43.2.

By providing an incentive to invest in heat recovery equipment that can displace the use of other energy sources, such as fossil fuels, this measure will help reduce demand for primary energy and contribute to a reduction in emissions of greenhouse gases and air pollutants.

These measures will apply to eligible assets acquired on or after March 4, 2010 that have not been used or acquired for use before that date.

Distribution Equipment of a District Energy System

District or community energy systems transfer thermal energy between a central generation plant and a group or district of buildings by circulating steam, hot water or cold water through a system of underground pipes. Specified distribution equipment that is part of a district energy system is currently included in Class 43.1 or 43.2 if it distributes heat produced by electrical cogeneration equipment that meets the requirements of Class 43.1 or Class 43.2, respectively.

Recent budgets have expanded Class 43.2 to include space-heating technologies such as active solar and ground-source heat pumps, which can provide low-grade energy particularly suitable for district energy systems.

Budget 2010 proposes to broaden Class 43.1 and Class 43.2 to include specified distribution equipment that is part of a district energy system used by the taxpayer to provide district heating or cooling through the use of thermal energy provided primarily by a ground source heat pump system, an active solar system, heat recovery equipment, or a combination of these energy sources, provided the generation equipment is included in Class 43.1 or Class 43.2, as the case may be.

This measure will help to increase the viability of using renewable energy sources by facilitating their use in district energy systems, which provide opportunities for efficiencies of scale. Encouraging investment in these technologies will contribute to a reduction in greenhouse gas emissions and increase diversification of Canada's energy supply.

These measures will apply to eligible assets acquired on or after March 4, 2010 that have not been used or acquired for use before that date.

Canadian Renewable and Conservation Expenses – Principal-Business Corporations

If the majority of tangible property in a project is eligible for inclusion in Class 43.2, then certain project start-up expenses (for example, engineering and design work and feasibility studies) qualify as Canadian Renewable and Conservation Expenses. These expenses can be fully deducted in the year incurred or transferred to investors using flow-through shares. In order to transfer or "renounce" Canadian Renewable and Conservation Expenses to an investor using flow-through shares, a corporation must be a "principal-business corporation".

Currently, the definition "principal-business corporation" includes a corporation the principal business of which is the generation of energy using Class 43.2 property or the development of Class 43.2 projects. Recent expansions of Class 43.2, however, have provided Class 43.2 treatment for certain assets related to energy generation even in cases where the taxpayer is not the party generating the energy.

Budget 2010 proposes that the definition "principal-business corporation" be amended to clarify that flow-through share eligibility extends to corporations the principal business of which is one, or any combination, of:

- producing fuel;
- generating energy; or
- distributing energy

using Class 43.1 or Class 43.2 property. This measure is consistent with the original policy intent of recent changes to Class 43.2 and of the proposal described above in respect of district energy equipment.

This measure will apply in respect of taxation years ending after 2004.

Television Set-top Boxes – Capital Cost Allowance

The capital cost allowance (CCA) system determines how much of the capital cost of an asset a taxpayer may deduct each year. CCA rates are generally set so that the deduction of capital cost is spread over the useful life of each category of asset. This approach is meant to ensure that the tax system accurately allocates the cost of capital assets over their useful lives, resulting in a better measurement of income for tax purposes. Over time, the useful life of assets may change, for example as a result of technological advances or changes in market conditions. CCA rates are reviewed on an ongoing basis to ensure that they remain up-to-date.

Currently, satellite set-top boxes that are used to decode digital television signals are eligible for a declining-balance-CCA rate of 20 per cent under Class 8 in Schedule II to the *Income Tax Regulations*, while cable set-top boxes are eligible for a declining-balance-CCA rate of 30 per cent under Class 10 of the *Regulations*. A review of the CCA rates that apply to satellite and cable set-top boxes indicates that a higher CCA rate would better reflect the useful life of these assets.

Budget 2010 proposes that satellite and cable set-top boxes that are acquired after March 4, 2010 and that have neither been used nor acquired for use before March 5, 2010 be eligible for a declining-balance-CCA rate of 40 per cent.

Interest on Overpaid Taxes

The Government pays interest in respect of overpayments of most taxes and other levies. The applicable interest rate for a quarter is equal to the average yield of three-month Government of Canada Treasury Bills sold in the first month of the preceding quarter, rounded up to the nearest percentage point, plus 2 percentage points.

The Auditor General raised concerns in her Spring 2009 report about interest paid on tax overpayments by corporations:

> If the [Canada Revenue] Agency unnecessarily holds large amounts on deposit, with an obligation to pay interest when making a refund, the federal government effectively is borrowing those funds at a higher interest rate than necessary. Instead of borrowing at Treasury bill rates, it will pay a rate that is at least two percentage points higher.

Budget 2010 proposes that, effective July 1, 2010, the interest rate payable by the Minister of National Revenue to corporations will be set at the average yield of three-month Government of Canada Treasury Bills sold in the first month of the preceding quarter, rounded up to the nearest percentage point. This new rate for corporations will apply in respect of income tax, Goods and Services Tax / Harmonized Sales Tax (GST/HST), employment insurance premiums, Canada Pension Plan contributions, excise tax and duty (except in respect of excise duty on beer), the Air Travellers Security Charge and the softwood lumber products export charge. The interest rate calculations in respect of non-corporate taxpayers will not change.

Federal Credit Unions

Consequential to the Budget 2010 proposal to allow for the establishment of federal credit unions, certain amendments may be required to the *Income Tax Act* to provide that federal credit unions that satisfy the existing definition "credit union" in the *Income Tax Act* will be subject to the same income tax rules as other credit unions.

SIFT Conversions and Loss Trading

The *Income Tax Act* includes provisions intended to allow specified investment flow-through (SIFT) trusts and partnerships – commonly referred to as income trusts and partnerships - to convert their structures into corporate form on a tax-deferred basis. Aggressive schemes have been designed to use these provisions to achieve inappropriate tax loss trading that would not be allowed as between two corporations.

In particular, the ability of a corporation to utilize its tax losses is constrained where control of the corporation has been acquired. In the case of a "reverse takeover" of a public corporation, an existing rule in the *Income Tax Act* generally deems there to be an acquisition of control of the public corporation in situations where shares of the public corporation are exchanged for shares of another corporation. Budget 2010 proposes to extend this rule to ensure that it also applies to impose restrictions on the use of losses in situations where units of a SIFT trust or SIFT partnership are exchanged for shares of a corporation.

Budget 2010 also proposes to amend the acquisition-of-control rules in the *Income Tax Act* to ensure that they do not inappropriately restrict the use of losses where a SIFT trust is wound up and distributes the shares of a corporation it holds. The rules will be amended to provide that where a SIFT trust, the sole beneficiary of which is a corporation, owns shares of another corporation, the wind-up of the trust will not cause an acquisition of control of the other corporation and restrict the subsequent use of that corporation's losses.

It is proposed that these amendments apply to transactions undertaken after 4:00 p.m. Eastern Standard Time on March 4, 2010, other than transactions that the parties are obligated to complete pursuant to the terms of an agreement in writing between the parties entered into before that time. A party shall be considered not to be obligated to complete a transaction if the party may be excused from completing the transaction as a result of changes to the *Income Tax Act*. These amendments will also apply to other SIFT conversion transactions if the parties to the transaction make the appropriate election.

International Taxation

Section 116 and Taxable Canadian Property

Canada taxes non-residents on their income and gains from the disposition of "taxable Canadian property". Where such property is disposed of by a non-resident, generally the purchaser must withhold a portion of the amount paid, and remit it to the Government on account of the non-resident vendor's potential Canadian tax liability. However, the purchaser's obligation to withhold does not apply if the non-resident vendor obtains a "clearance certificate" from the Canada Revenue Agency. To obtain a clearance certificate, the non-resident vendor needs to remit an amount, post security, or satisfy the Canada Revenue Agency that no tax will be owing. These rules are contained in section 116 of the *Income Tax Act*.

Taxable Canadian property includes shares of corporations resident in Canada, as well as real or immovable property (including Canadian resource property and timber resource property) that is situated in Canada. It also includes certain shares and other interests the value of which is, or was within the previous 60 months, derived principally from such real or immovable property. Gains from dispositions of taxable Canadian property by non-residents, other than of taxable Canadian property that is real or immovable property or shares that derive their value principally from real or immovable property, are generally exempt under many of Canada's tax treaties.

Dispositions of shares of corporations resident in Canada that do not derive their value principally from real or immovable property are still subject to the withholding process contained in section 116 of the *Income Tax Act*, regardless of the possibility of a treaty exemption. It was with this in mind that Budget 2008 implemented certain changes to streamline and simplify the section 116 compliance process.

Building upon the measures introduced in Budget 2008, Budget 2010 proposes that the definition of taxable Canadian property in the *Income Tax Act* be amended to exclude shares of corporations, and certain other interests, that do not derive their value principally from real or immovable property situated in Canada, Canadian resource property, or timber resource property (subject to the 60 month rule mentioned above). This measure will eliminate section 116 compliance obligations for these types of properties and will also bring Canada's domestic tax rules more in line with our tax treaties and the tax laws of our major trading partners.

Narrowing the definition of taxable Canadian property will eliminate the need for tax reporting under section 116 of the *Income Tax Act* for many investments, enhancing the ability of Canadian businesses, including innovative high-growth companies that contribute to job creation and economic growth, to attract foreign venture capital.

This measure will apply in determining after March 4, 2010 whether a property is taxable Canadian property of a taxpayer.

Refunds under Regulation 105 and Section 116

Section 105 of the *Income Tax Regulations* and section 116 of the *Income Tax Act* impose requirements on payors of funds to non-resident service providers and purchasers of taxable Canadian property from non-residents, respectively, to withhold and remit to the Canada Revenue Agency a portion of the amount paid to the non-resident in certain circumstances. The amounts are to be withheld and remitted on account of the non-resident's potential Canadian tax liability. The obligation to withhold and remit can arise even where the non-resident is not liable for Canadian tax, for example because of protection under an applicable tax treaty.

Section 164 of the *Income Tax Act* permits a taxpayer to receive a refund of tax overpaid for a taxation year provided that the taxpayer has filed its income tax return for the year in question within the period prescribed in the *Income Tax Act*. A unique problem affecting non-residents has been noted in the interaction of the prescribed time limits to obtain a refund and the lack of a deadline for the Canada Revenue Agency to assess a payor who fails to withhold taxes. In some circumstances, this interaction could result in the non-resident being unable to recoup any overpayment of tax.

Budget 2010 proposes an amendment to section 164 of the *Income Tax Act* to also permit the issuance of a refund of an overpayment of tax under Part I of the *Income Tax Act* if the overpayment is related to an assessment of the payor or purchaser in respect of a required withholding under section 105 of the *Income Tax Regulations* or section 116 of the *Income Tax Act* and the taxpayer files a return no more than two years after the date of that assessment.

This measure will be effective for applications for refunds claimed in returns filed after March 4, 2010.

Foreign Tax Credit Generators

The Canadian income tax system generally taxes Canadian residents on their worldwide income. However, in recognition of the fact that foreign countries may also assert the right to tax income earned in their territory by a Canadian resident, Canada generally provides a credit for foreign income taxes paid in respect of such income. This foreign tax credit (FTC) is aimed at relieving Canadian residents from double taxation.

Similar relief is provided in the computation of the income of a foreign affiliate that is subject to tax in the hands of its Canadian shareholder. This relief is provided either through the foreign accrual tax (FAT) mechanism, in the case of the foreign accrual property income (FAPI) of a controlled foreign affiliate, or through the underlying foreign tax (UFT) mechanism, in the case of dividend distributions out of taxable surplus.

Some Canadian corporations have recently been engaging in schemes, often referred to as "foreign tax credit generators", that are designed to shelter tax otherwise payable in respect of interest income on loans made, indirectly, to foreign corporations. These schemes artificially create foreign taxes that are claimed by the Canadian corporation as a FTC, or a FAT or UFT deduction, in order to offset Canadian tax otherwise payable.

There are two main categories of these schemes, and many variations within these categories. The first category involves the use of a foreign partnership, the second involves the use of a foreign corporation that is intended to qualify as a foreign affiliate. The main thrust of all of these schemes is to exploit asymmetry, as between the tax laws of Canada and those of a foreign country, in the characterization of the Canadian corporation's direct or indirect investment in a foreign entity earning the income that is subject to the foreign tax.

These foreign tax credit generator schemes generally involve a complex series of transactions which, in substance, amount to a Canadian corporation making a loan to a corporation resident in a foreign jurisdiction that taxes on the basis of the substantive effect of the transaction, while relying on Canadian tax law looking only to the form of the transaction. The form is that of an investment by the Canadian corporation in a foreign special purpose entity which pays full foreign tax on an amount of income that is, in part, the return derived on the Canadian taxpayer's investment. However, an offsetting tax reduction is generated in respect of that return within the foreign corporation's group. If the Canadian corporation had instead made a simple loan to the foreign corporation, the interest income on that loan would generally not be subject to any foreign tax. As such, no FTC, nor any UFT or FAT deduction, would be available in Canada and full Canadian tax would be levied on the interest income in respect of that loan. By using these foreign tax credit generator schemes, the foreign corporation receives the same substantive foreign tax treatment as it would for a simple borrowing but the Canadian corporation is able to claim an FTC, or a UFT or FAT deduction, in order to partly or fully offset its Canadian tax otherwise payable in respect of its interest income. The Canadian tax savings are generally shared between the Canadian lender and the foreign borrower in determining the terms of the loan and related matters.

Although the Government believes that these foreign tax credit schemes can be successfully challenged under existing rules in the *Income Tax Act*, the magnitude of this problem warrants greater assurance through specific and immediate legislative action. Consequently, Budget 2010 proposes measures that will deny claims for FTCs, and FAT and UFT deductions, in circumstances in which the income tax law of the jurisdiction levying the foreign income tax, or another relevant jurisdiction, considers the Canadian corporation to have a lesser direct or indirect interest in the foreign special purpose entity than the Canadian corporation is considered to have for the purposes of the *Income Tax Act*. This measure should generally put the Canadian corporation in the same tax position as if it had made a simple loan to the foreign corporation.

This measure is proposed to be effective for foreign taxes incurred in respect of taxation years that end after March 4, 2010. The Government will be accepting comments in the finalization of the legislation to implement this measure and encourages stakeholders to submit any such comments before May 4, 2010.

Foreign Investment Entities and Non-Resident Trusts

The *Income Tax Act* includes rules designed to prevent Canadians from using foreign intermediaries to avoid paying their fair share of tax. However, the rules are not fully effective in certain circumstances where aggressive offshore tax-planning schemes are used to circumvent their application.

The Government continues to make efforts to ensure that appropriate rules exist to counter these schemes. Most recently, proposals for amendments were tabled during the second session of the 39th Parliament. Those proposals were not enacted before Parliament was dissolved in September 2008. Budget 2009 stated that the Government would review the outstanding proposals before proceeding with measures in this area. As a result of this review, the Government has developed the following revised proposals to replace the outstanding proposals for public consultation with a view to developing revised legislation, which will then also be released for comment.

Foreign Investment Entities

The revised proposals replace the outstanding proposals with respect to foreign investment entities with the following limited enhancements to the existing rules in the *Income Tax Act*:

- Section 94.1 of the *Income Tax Act* currently requires an income inclusion with respect to interests in an "offshore investment fund property" in certain circumstances. It is proposed that the prescribed rate applicable in computing the income inclusion for an interest in an offshore investment fund property be increased to the three-month-average Treasury Bill rate plus two percentage points. This increase in the prescribed rate is intended to better reflect actual long-term investment returns.
- Section 94 of the *Income Tax Act* currently requires certain beneficiaries of a non-resident trust that is not otherwise deemed resident in Canada to report income on a modified foreign accrual property income basis where the fair market value of the beneficiary's interest in the trust exceeds 10 per cent of the value of all interests in the trust. It is proposed that these rules be broadened to apply to any resident beneficiary who, together with any person not dealing at arm's length with the beneficiary, holds 10 per cent or more of any class of interests in a non-resident trust determined by fair market value. They will also apply to any resident who has contributed "restricted property" (as proposed to be defined, which is described below) to a non-resident trust. These changes will be relevant for beneficiaries of non-resident trusts that are not deemed resident in Canada by the revised proposals discussed below.

- It is proposed that the relevant reassessment period in respect of interests in offshore investment fund property and interests in trusts described in the previous paragraph be extended by three years. It is also proposed that the existing reporting requirements with respect to "specified foreign property" be expanded so that more detailed information is available for audit use. These additional measures are needed to ensure that the Canada Revenue Agency has the information and time required to identify and reassess those taxpayers who have not properly reported their income from transactions involving offshore investment fund properties and non-resident trusts.

Non-Resident Trusts

The revised proposals are based on the outstanding proposals with respect to non-resident trusts, but with substantial modifications meant to simplify the outstanding proposals and to better target arrangements that seek to avoid paying the appropriate amount of Canadian tax.

Scope of the Rules

The existing rules in the *Income Tax Act* deem a non-resident discretionary trust to be resident in Canada if it has a Canadian contributor and a related Canadian beneficiary. Such a trust is required to pay tax on its income in the same manner as other residents of Canada. The Canada Revenue Agency, however, has identified complex tax-planning arrangements that attempt to frustrate the fundamental policy objectives of these rules. The outstanding proposals were intended to prevent this type of tax avoidance by broadening the scope of non-resident trusts to which deemed residence would apply.

The outstanding proposals would have applied to non-resident trusts (other than exempt foreign trusts) with a resident contributor regardless of the current existence of a Canadian beneficiary. They would have also applied where the non-resident trust had a Canadian beneficiary and the contributor had been resident in Canada within 60 months of having made the contribution to the trust (referred to as a resident beneficiary under the outstanding proposals). A deemed resident trust would have been taxed on all of its income, regardless of who contributed the property upon which the income was earned or the source of the income. The outstanding proposals would have generally made both resident contributors and resident beneficiaries jointly and severally, or solidarily, liable for tax payable by a trust deemed resident.

The Government has received representations from taxpayers citing the complexity of the outstanding proposals and the difficulty for taxpayers in proceeding with legitimate, non-tax-motivated transactions because of uncertainty as to how those proposals would apply in a variety of particular situations. It is proposed that the scope of the outstanding proposals be simplified and better targeted in several ways.

First, concerns have been expressed that the outstanding proposals would have inadvertently caused a Canadian tax-exempt entity, such as a pension plan, that invested in a non-resident trust to become jointly and severally, or solidarily, liable for the trust's income tax liability despite its tax-exempt status under the *Income Tax Act*. It is proposed that an exemption from resident-contributor and resident-beneficiary status be provided for all persons exempt from tax under section 149 of the *Income Tax Act* (for example, pension funds, Crown corporations and registered charities). However, if a tax-exempt entity were to be used as a conduit to allow a resident of Canada to make an indirect contribution to a non-resident trust, provisions in the outstanding proposals would continue to ensure that the resident of Canada making the indirect contribution is still considered a resident contributor to the trust.

Secondly, concerns have been raised that under the outstanding proposals, an investor would be unable to determine with certainty whether any particular commercial trust would be deemed resident in Canada. Concerns have also been raised about the possibility that a commercial trust might be deemed resident in Canada due to circumstances beyond the investor's control. It has been argued that these uncertainties with respect to the potential application of the outstanding proposals deter genuine commercial investments from being made.

It is not intended that investments in *bona fide* commercial trusts be deterred; nor is it intended that *bona fide* commercial trusts be deemed resident in Canada. Consequently, it is proposed that the provision in the outstanding proposals that would have imposed deemed Canadian residence on a trust by reason only of the trust acquiring or holding restricted property be eliminated. This change will have the effect of expanding the exemption for commercial trusts under paragraph (*h*) of the definition "exempt foreign trust" in the outstanding proposals. Furthermore, a commercial trust will not be deemed resident in Canada if the trust satisfies all the following conditions:

- each beneficiary is entitled to both the income and capital of the trust;

- any transfer of an interest by a beneficiary results in a disposition for the purposes of the *Income Tax Act* and interests in the trust cannot cease to exist otherwise than as a consequence of a redemption or cancellation under which the beneficiary is entitled to receive the fair market value of the interests;
- the amount of income and capital payable to a beneficiary does not depend on the exercise of, or failure to exercise, discretion by any person (discretion only with respect to the timing of distributions will not prevent a trust from being an exempt foreign trust);
- interests in the trust: (i) are listed and regularly traded on a designated stock exchange, (ii) were issued by the trust for fair market value, or (iii) where the trust has at least 150 investors, are available to the public in an open market;
- the terms of the trust cannot be varied without the consent of all the beneficiaries or, in the case of a widely held trust, a majority of the beneficiaries; and
- the trust is not a personal trust.

A commercial trust that is varied in a non-permitted way will lose its status as an exempt foreign trust and, at that time, will be taxable on all the trust's income that has been accumulated (together with an interest amount) since the time it first acquired a resident beneficiary or resident contributor. Taxing the trust on its accumulated income in this manner reflects the fact that the trust would not have qualified as an exempt foreign trust in the first place had the terms of the trust always provided for the trust to be varied in that manner; and consequently, the trust should have been subject to tax in Canada in earlier years. This new anti-avoidance rule is intended to reduce the incentive for Canadians to seek to avoid tax on their personal investments by structuring an arrangement to mimic a genuine commercial trust. However, recognizing that legitimate circumstances may exist in which non-resident beneficiaries may disclaim an interest in a commercial trust for non-tax reasons, a safe harbour will be provided where the interest being disclaimed is under a *de minimus* threshold.

Thirdly, as a result of the proposed changes to the definition "exempt foreign trust", the role of restricted property will be significantly reduced. Restricted property will, however, remain relevant for certain other purposes (for example, in determining whether a particular transfer of property results in an "arm's length transfer" as defined in the outstanding proposals). It is proposed that the definition "restricted property" be narrowed and better targeted. It will be limited to shares or rights (or property that derives its

value from such shares or rights) acquired, held, loaned or transferred by a taxpayer as part of a series of transactions or events in which "specified shares" (as defined in the outstanding proposals being, generally, shares with fixed entitlement rights) of a closely-held corporation were issued at a tax cost less than their fair market value.

Finally, it was noted that under the outstanding proposals a conventional loan made by a Canadian financial institution to a non-resident trust in the ordinary course of its business could be viewed as a contribution to that trust, if as part of the terms and conditions of the loan, there was a potential for a transfer of restricted property between the parties (on default of the loan, for example). It is proposed that a new rule be added to ensure that loans made by a Canadian financial institution to a non-resident trust will not result in the financial institution being a resident contributor to the trust as long as the loan is made in the ordinary course of the financial institution's business.

Application of the Rules

Taxation of a Deemed Resident Trust

Where a non-resident trust has a resident beneficiary or a resident contributor, the outstanding proposals would have imposed tax on all of the trust's income and generally made the resident beneficiaries and resident contributors jointly and severally, or solidarily, liable for that tax. It is proposed that a number of refinements to the taxation of a trust deemed resident in Canada be made. For this purpose, it is proposed that the trust's property be divided into a resident portion and a non-resident portion. The resident portion will consist of property acquired by the trust by way of contributions from residents and certain former residents, and any property substituted for such property. The non-resident portion will consist of any property that is not part of the resident portion.

It is proposed that any income arising from property that is part of the non-resident portion, other than income from sources in Canada upon which non-residents are normally required to pay tax, be excluded from the trust's income for Canadian tax purposes. In addition, it is proposed that the trust's income be attributed to its resident contributors in proportion to their relative contributions to the trust (discussed below). The trust will be entitled to a deduction for both the amount of its income that is payable to its beneficiaries in the year and for amounts attributed to resident contributors. As a result, the trust itself will ordinarily pay tax in Canada only on income derived from contributions of certain former resident contributors.

It is proposed that, when income of the trust is not distributed to beneficiaries, the amount of the accumulated income for the relevant taxation year will be deemed to be a contribution by the trust's connected contributors and will form part of the resident portion for the next taxation year. There will be an exception to this deeming rule; accumulated income that arises from property that is part of the non-resident portion will not be subject to the deeming rule if it is kept separate and apart from all the property of the resident portion.

In addition, it is proposed that ordering rules be introduced with respect to distributions to beneficiaries of the trust. Distributions to resident beneficiaries will be deemed to be made first out of the resident portion of the trust's income while distributions to non-resident beneficiaries will be deemed to be made first out of the non-resident portion. Distributions to non-resident beneficiaries out of the non-resident portion of the trust will not be subject to Part XIII tax, but distributions to non-resident beneficiaries out of the resident portion of the trust will be subject to Part XIII tax.

It has been noted that the outstanding proposals do not fully recognize the foreign taxes paid to another country that also treats the trust as a resident for tax purposes. It is proposed to address this concern by permitting a trust that is deemed to be resident in Canada under these rules to claim a foreign tax credit for income taxes paid to another country that treats the trust as a resident of that country for income tax purposes, irrespective of the limits under subsection 20(11) of the *Income Tax Act* but up to the Canadian tax rate (which generally limits the foreign tax credit in respect of property income to 15% of the foreign income).

Attribution

As noted, the outstanding proposals would have generally made both resident contributors and resident beneficiaries jointly and severally, or solidarily, liable for tax payable by a trust deemed resident. This liability has raised concerns on the basis that resident contributors could be held liable for tax on income that has no connection with the property they contributed to the trust.

In response to these concerns, it is proposed that resident contributors to a trust that is deemed to be resident under these rules be attributed, and taxed on, their proportionate share of the trust's income for Canadian tax purposes. They will not be jointly and severally, or solidarily, liable for the trust's own income tax obligations (although resident beneficiaries will be liable with respect to the trust's income tax payable to the same extent as under the outstanding proposals).

The income attributed to resident contributors will generally be based on the proportion of the fair market value of their contributions to the trust (at the times the contributions were made) to the fair market value of all contributions received by the trust from connected contributors. Income distributions from the trust will reduce the amount of income that is attributed to resident contributors. When a resident contributor dies or otherwise ceases to be resident in Canada in a year, the income to be attributed to that person for that year will be limited to the relevant portion of the trust's income earned to the date of death or departure, as the case may be.

As part of the attribution rules, the amount attributed to resident contributors will be reduced by the amount of losses of other years claimed by the trust. In addition, it is proposed that a trust be able to designate a reasonable portion of its foreign tax credit to those contributors to whom amounts have been attributed, in a manner similar to the allocation of foreign tax credits to beneficiaries under the existing rules.

It is further proposed that the relevant reassessment period for income in respect of trusts subject to these rules be extended by three years. As indicated above with respect to foreign investment entities, this will assist the Canada Revenue Agency in identifying and reassessing those taxpayers who have not properly reported their income from transactions involving these trusts.

It is further proposed that the *Income Tax Conventions Interpretation Act* be amended to clarify that a trust that is deemed to be resident in Canada under these rules is a resident of Canada and subject to tax under the *Income Tax Act* for tax treaty purposes. One of the major purposes of Canada's tax treaties is to prevent tax avoidance and tax evasion. These proposals are anti-avoidance rules aimed at ensuring that residents of Canada pay tax on their worldwide income and as such, they are consistent with Canada's treaty obligations.

Date of Application

It is proposed that the measures regarding foreign investment entities apply for taxation years that end after March 4, 2010. A taxpayer who voluntarily complied with the outstanding proposals in previous years will have the option of having those years reassessed. If the taxpayer does not wish to be reassessed for those years, and had more income than would have been the case under the existing rules, the taxpayer will be entitled to a deduction in the current year for the excess income.

It is proposed that the measures regarding non-resident trusts apply for the 2007 and subsequent taxation years. An election allowing a trust to be deemed resident for the 2001 and subsequent taxation years will be available. The attribution of trust income to resident contributors will apply only to taxation years that end after March 4, 2010.

Public Consultation Process

The revised proposals described above will be subject to a consultation process before being tabled in Parliament. The public is welcomed and encouraged to submit comments with respect to these proposals before May 4, 2010. A panel consisting of respected tax practitioners will be formed to work with the Department of Finance in reviewing any issues identified in comments received and in making recommendations on the design of the draft legislation to implement the revised proposals, following which draft legislation will be released for public commentary.

Sales Tax Measures

GST/HST and Purely Cosmetic Procedures

Basic health care services are exempt from the Goods and Services Tax/Harmonized Sales Tax (GST/HST). Purely cosmetic procedures, as well as goods and services related to these procedures, are not considered to be basic health care and are subject to tax. For instance, the GST/HST legislation currently specifies that surgical and dental services performed for cosmetic purposes and not for medical or reconstructive purposes are taxable.

Budget 2010 proposes to clarify that GST/HST applies to all purely cosmetic procedures, to devices or other goods used or provided with cosmetic procedures, and to services related to cosmetic procedures. Taxable procedures would generally include surgical and non-surgical procedures aimed at enhancing one's appearance such as liposuction, hair replacement procedures, botulinum toxin injections, and teeth whitening.

A cosmetic procedure will continue to be exempt if it is required for medical or reconstructive purposes, such as surgery to ameliorate a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease. As well, cosmetic procedures paid for by a provincial health insurance plan will continue to be exempt.

The proposed clarifying measures will apply to supplies made after March 4, 2010 and to supplies made on or before March 4, 2010 if the supplier charged, collected or remitted GST/HST in respect of the supply.

Simplification of the GST/HST for the Direct Selling Industry

The direct selling industry distributes goods to final consumers through a large number of contractors and sales representatives, rather than through retail establishments. The direct selling industry generally employs two business models:

- the buy and resell model, where contractors purchase goods from a direct seller and resell the goods to consumers with a mark-up; and
- the commission-based model, where a network of sales representatives of a direct selling organization (referred to as a "network seller") receives commissions for arranging for the sales of the network seller's goods ("select products") to consumers.

To simplify the operation of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) for network sellers employing the commission-based model, Budget 2009 proposed allowing network sellers that meet certain qualification criteria to apply for the use of a special GST/HST accounting method. Simplified GST/HST accounting already exists under the *Excise Tax Act* for direct sellers that utilize the buy and resell model.

Budget 2010 confirms the Government's intention to implement the Budget 2009 proposals for simplification of the GST/HST for the direct selling industry and proposes the following enhancements and clarifications to the previously announced measure:

- a clarification that new entrants in the direct selling industry, who meet the qualification criteria and who have never before made a supply of a select product, may apply to the Minister of National Revenue at any time during a fiscal year for approval to use the special GST/HST accounting method for network sellers;
- a clarification that the supply of host gifts by a network seller to hosts would not be subject to the GST/HST; and

- a "safety mechanism" for a network seller that does not meet the qualification criterion concerning the commissions paid by the network seller to its sales representatives for a particular fiscal year; as a result of this "safety mechanism", there would be no adjustment to the GST/HST net tax of a network seller in respect of:
  - the first fiscal year that the network seller fails to meet the requirement that all or substantially all of its sales representatives have annual commissions not exceeding $30,000, provided that at least 80 per cent of the sales representatives have annual commissions from the network seller not exceeding $30,000 in that first fiscal year; or
  - the second fiscal year that the network seller fails to meet the above-noted requirement, provided that the network seller requests in writing, within the first six months of that second fiscal year, that the Minister of National Revenue revoke its approval to use the special GST/HST accounting method and provided that at least 80 per cent of the sales representatives have annual commissions from the network seller not exceeding $30,000 in that second fiscal year.

Budget 2010 proposes that these enhancements apply in respect of fiscal years of a network seller that begin after 2009, matching the timing of the Budget 2009 proposals. A network seller, other than a new entrant, will be required to apply for approval to use the special GST/HST accounting method before the first day of the fiscal year of the network seller in respect of which that method is to begin applying. However, for a fiscal year of the network seller beginning in 2010, it is also proposed that a transitional measure allow a network seller to apply in 2010 for approval to start using the special GST/HST accounting method in 2010 in respect of the remaining part of that fiscal year.

Other Tax Measures

Specified Leasing Property Rules

Arrangements to acquire and finance depreciable assets can have varying tax implications depending upon how the arrangement is structured. A taxpayer could borrow money from a financial institution to finance the acquisition, putting the property up as security for the loan, or lease the property from a financial institution that acquired the property for the purpose of leasing it to the taxpayer. Thus, economically, a lease and a loan are highly substitutable. The main difference between the two is the fact that they result in title to the asset being in different hands: in the case of a lease, the financial institution holds the title, whereas in the case of a loan the taxpayer holds this title.

However, unlike accounting rules, the income tax law does not reclassify the legal nature of lease arrangements. Because the income tax law looks at ownership to determine who may claim capital cost allowance, leases have been used to transfer capital cost allowance deductions from the user of an asset to the person financing its acquisition. To seek to neutralize the tax consequences of substituting a lease for a loan, the existing Specified Leasing Property rules in the *Income Tax Regulations* effectively recharacterize such a lease from the lessor's perspective to be a loan, with the lease payments received being treated as blended payments of principal and interest. The rules restrict a lessor's claim for capital cost allowance on the leased property to the lesser of the amount of capital cost allowance that would otherwise be deductible and the amount of lease payments received, less a calculation of notional interest amount for the year. In effect, the Specified Leasing Property rules put lessors in the same position as lenders who receive blended payments of principal (non-taxable) and interest (taxable).

The Specified Leasing Property rules contain certain exceptions. In particular, they do not apply to short term leases or to leases of property with a value of less than $25,000, since generally such leases provide an immaterial tax benefit or do not, in substance, provide financing to the lessee. The rules also include an exception for certain types of property ("exempt property").

Some taxpayers have exploited these exemptions by leasing exempt property, and claiming capital cost allowance in respect of that property, to a lessee who is not subject to Canadian income tax and therefore cannot make use of the capital cost allowance, either because the lessee is tax exempt or non-resident.

Budget 2010 proposes to extend the application of the Specified Leasing Property rules to otherwise exempt property that is the subject of a lease to a government or other tax-exempt entity, or to a non-resident. However, such a lease will continue to be exempt if the total value of the property that is the subject of the lease is less than $1 million. In this regard, an anti-avoidance rule will apply if it may reasonably be considered that one of the purposes of dividing property (or a class of property) among separate leases is to meet the $1 million exception.

These measures will apply to leases entered into after 4:00 p.m. Eastern Standard Time March 4, 2010.

Information Reporting of Tax Avoidance Transactions – Public Consultation

Budget 2010 announces a public consultation on proposals to require the reporting of certain tax avoidance transactions. The Government will undertake consultations with stakeholders on these proposals, with a view to improving the fairness of the Canadian tax system. Details of these proposals will be released at the earliest opportunity and the consultation process will be announced at that time.

The fairness of the Canadian income tax system is essential to ensure the integrity of Canada's self-assessment system. Ensuring this fairness requires a balancing between a taxpayer's entitlement to plan their affairs in a manner that legally minimizes their tax liability and the need to ensure that the tax law is not abused. Aggressive tax planning arrangements entered into by some taxpayers can undermine the tax base and the fairness and integrity of the tax system, to the detriment of all Canadians.

The *Income Tax Act* already contains a number of substantive rules intended to counter aggressive tax planning. In some cases, these rules help identify certain transactions and their participants. In other cases, the rules deny the tax benefits sought to be obtained (including, but not limited to, the General Anti-Avoidance Rule).

However, in order to be able to effectively apply these substantive rules, the Canada Revenue Agency must be able to identify aggressive tax planning in a timely manner. In this regard, there are already information reporting requirements for tax shelters, as defined in the *Income Tax Act*. The reporting regime for tax shelters assists the Canada Revenue Agency to ensure that the benefits provided by a tax shelter are not unintended, inappropriate or contrary to a provision of the tax law. However, a significant number of aggressive tax planning arrangements do not meet the definition in the law of a tax shelter. Currently, there is no specific information reporting regime that identifies for the Canada Revenue Agency other types of potentially abusive tax avoidance transactions.

Budget 2010 therefore proposes a regime under which a tax "avoidance transaction" that features at least two of three "hallmarks" would be a "reportable transaction" that must be reported to the Canada Revenue Agency. The proposed hallmarks would reflect certain circumstances that commonly exist when taxpayers enter into tax avoidance transactions. Although the hallmarks are not themselves evidence of abuse, their presence often indicates that underlying transactions are present that carry a higher risk of abuse of the income tax system. In this regard, the proposed regime is similar to, but less strict than, the reporting regimes of other jurisdictions that use hallmarks as a means of identifying aggressive tax planning, such as those of the United States, the United Kingdom and most recently, the Province of Québec. This would minimize the possibility that normal tax planning would be subject to these proposals.

For this purpose, a reportable transaction would be an avoidance transaction, as currently defined in the *Income Tax Act*, that is entered into by or for the benefit of a taxpayer that bears at least two of the following three hallmarks:

1. A promoter or tax advisor in respect of the transaction is entitled to fees that are to any extent
   - attributable to the amount of the tax benefit from the transaction,
   - contingent upon the obtaining of a tax benefit from the transaction, or
   - attributable to the number of taxpayers who participate in the transaction or who have been provided access to advice given by the promoter or advisor regarding the tax consequences from the transaction.

2. A promoter or tax advisor in respect of the transaction requires "confidential protection" about the transaction.

3. The taxpayer or the person who entered into the transaction for the benefit of the taxpayer obtains "contractual protection" in respect of the transaction (otherwise than as a result of a fee described in the first hallmark).

A transaction that is a tax shelter or a flow-through share arrangement will not be impacted by these proposals, but will be subject to the existing requirements for tax shelters and flow-through shares.

Upon discovery of a reportable transaction that has not been reported when required, the Canada Revenue Agency could deny the tax benefit resulting from the transaction. If the taxpayer still wanted to claim the tax benefit, it would be required to file with the Canada Revenue Agency any required information and to pay a penalty. The disclosure of a reportable transaction would have no bearing on whether the benefit is allowed under the law; rather it would simply assist the Canada Revenue Agency in identifying the transaction. In this regard, the disclosure of a reportable transaction would not be considered in any way as an admission that the General Anti-Avoidance Rule applies to the transaction.

These proposals, as modified to take into account the consultations, would apply to avoidance transactions entered into after 2010, as well as those that are part of a series of transactions completed after 2010.

Online Notices

In 2000 the *Personal Information Protection and Electronic Documents Act* introduced a legislative framework by which requirements in federal statutes and regulations, which contemplate the use of paper or do not expressly permit the use of electronic technology, may be administered or complied with in the electronic environment. This gave the Canada Revenue Agency general legislative authority to provide information electronically in most circumstances. However, the provisions of some of the various statutes dealing with notices issued by the Canada Revenue Agency were enacted at a time when electronic alternatives were not contemplated. As a result of the specific language of these provisions, some notices cannot be provided in electronic format even with the general permission accorded by the *Personal Information Protection and Electronic Documents Act*. As such, taxpayers can receive notices, such as notices of assessment under the *Income Tax Act*, from the Canada Revenue Agency only through the mail system or personally.

Budget 2010 proposes that the *Income Tax Act*, *Excise Tax Act*, *Excise Act, 2001*, *Air Travellers Security Charge Act*, *Canada Pension Plan* and *Employment Insurance Act* be amended to allow for the electronic issuance of those notices that can currently be sent by ordinary mail. However, notices that are specifically required to be served personally or by registered or certified mail will not be eligible to be transmitted electronically.

These measures will provide the Canada Revenue Agency with the legislative authority to issue electronic notices, if authorized by a taxpayer, which will be made available on the Canada Revenue Agency's existing secure online platforms (My Account and My Business Account). The Canada Revenue Agency will inform taxpayers that provide such authorization that a new electronic document is available in their secure online account by sending the taxpayer an email to that effect. The Canada Revenue Agency intends to provide this service in respect of notices of assessment and reassessment of tax under Part I of the *Income Tax Act*, and notices of determination and re-determination in respect of the Goods and Services Tax / Harmonized Sales Tax (GST/HST) credit and the Canada Child Tax Benefit. Legislative authority will also be provided to the Canada Revenue Agency to issue electronic notices for GST/HST, excise tax and duty (other than the duty on beer), and the Air Travellers Security Charge.

The necessary legislative amendments will be effective as of the date of Royal Assent of the implementing legislation. However, the application of these measures will commence at such time as will be announced by the Minister of National Revenue.

Tax Evasion and the Proceeds of Crime and Money Laundering Regime

The *Criminal Code* was amended in December 2001 as part of an internationally coordinated effort by developed countries to counter criminal and terrorist activities. The proceeds of crime and money laundering regime in the *Criminal Code* provides the Crown, in respect of certain criminal and terrorist activities, with enhanced powers to search, to seize and to retain proceeds of crime and to apply minimum terms of imprisonment to convicted criminals and terrorists who do not forfeit their proceeds of crime. In such cases, Canada is also assisted in investigating these serious offences (referred to as "designated offences" in the *Criminal Code*) by foreign governments under mutual legal assistance treaties.

Provisions in the *Criminal Code* can be applied to prosecute tax evasion offenses that constitute fraud, in which case the proceeds of crime and money laundering regime may be applicable. Indictable tax offences prosecuted under the *Income Tax Act,* the *Excise Tax Act*, the *Excise Act* (except for subsections 233(1) and 240(1)) and the *Budget Implementation Act, 2000*, however, were excluded from falling within the ambit of the proceeds of crime and money laundering regime.

Budget 2010 proposes to rationalize the rules concerning the application of the proceeds of crime and money laundering regime, and provide further support for international efforts to counter criminal and terrorist activities, by repealing the exclusion for indictable tax offences under the *Income Tax Act*, the *Excise Tax Act*, the *Excise Act*, and the *Budget Implementation Act, 2000* from the definition of "designated offence" under the *Criminal Code*, such that the Crown will be able to prosecute these tax offences using that regime, regardless of whether prosecuted under the *Criminal Code* fraud provisions or the tax statutes. Budget 2010 also proposes consequential amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* consistent with the proposal above with respect to the *Criminal Code*.

Taxation of Corporate Groups

Over the last several years, the Government has taken significant steps to improve the competitiveness of the tax system for Canadian businesses, and followed through on *Advantage Canada* commitments to reduce taxes on business investment. However, there are still specific structural elements of the tax system where it may be possible to make improvements. For example, the Government has heard various concerns from the business community and from the provinces regarding the utilization of tax losses within corporate groups. Going forward, the Government will explore whether new rules for the taxation of corporate groups - such as the introduction of a formal system of loss transfers or consolidated reporting -- could improve the functioning of the tax system. Stakeholder views will be sought prior to the introduction of any changes.

Aboriginal Tax Policy

Taxation is an integral part of good governance as it promotes greater accountability and self-sufficiency and provides revenues for important public services and investments. Therefore, the Government of Canada supports initiatives that encourage the exercise of direct taxation powers by Aboriginal governments.

To date, the Government of Canada has entered into 32 sales tax arrangements under which Indian Act bands and self-governing Aboriginal groups levy a sales tax within their reserves or their settlement lands. In addition, 12 arrangements respecting personal income taxes are in effect with self-governing Aboriginal groups under which they impose a personal income tax on all residents within their settlement lands. The Government reiterates its willingness to discuss and put into effect direct taxation arrangements with interested Aboriginal governments.

The Government of Canada also supports direct taxation arrangements between interested provinces or territories and Aboriginal governments and enacted legislation to facilitate such arrangements in 2006.

Customs Tariff Measures

Tariff Reductions on Manufacturing Inputs and Machinery and Equipment

Budget 2010 proposes to eliminate the remaining tariffs on manufacturing inputs and machinery and equipment. The Department of Finance consulted extensively with stakeholders in preparing this measure, including through the publication of a notice in the *Canada Gazette* on September 19, 2009.

This measure will assist Canadian industry by lowering the costs of manufacturing inputs and machinery and equipment that are imported from outside North America. Tariffs on the affected goods vary from 2 per cent to 15.5 per cent and represent a non-recoverable tax on production inputs and on new investments that companies make in order to enhance their competitiveness and productivity.

The reductions apply to 1,541 tariff items as currently listed in the Schedule to the *Customs Tariff*. For these items, the Most-Favoured-Nation (MFN) rates of duty will be reduced to "Free" as outlined in the Notice of Ways and Means Motion to Amend the *Customs Tariff*. Of these:

- 1,160 tariff items will have the MFN rates of duty reduced to "Free" as of March 5, 2010; and
- 381 tariff items will have the MFN rates of duty gradually reduced, beginning as of March 5, 2010 and going to "Free" by no later than January 1, 2015.

In certain instances, these MFN reductions will lead to consequential reductions to the rates of duty under other tariff treatments, namely the General Preferential Tariff, the Costa Rica Tariff, the Peru Tariff, the Australia Tariff and the New Zealand Tariff. In a few instances, additional tariff items will be created to take into consideration comments received from stakeholders.

The tariff reductions will be given effect by amendments to the *Customs Tariff* and will be effective in respect of goods imported into Canada on or after March 5, 2010.

Previously Announced Measures

Budget 2010 confirms the Government's intention to proceed with the following previously-announced tax measures, as modified to take into account consultations and deliberations since their release:

- Paperwork Burden Reduction Initiative for small excise taxpayers announced by the Minister of National Revenue on March 31, 2009;
- Enhanced tobacco stamping regime to deter contraband tobacco released on August 6, 2009;
- Improvements to the application of the GST/HST to the financial services sector released on September 23, 2009;
- Additional measure proposed in relation to the Canada-U.S. Softwood Lumber Agreement contained in the detailed Notice of Ways and Means Motion to amend the *Softwood Lumber Products Export Charge Act, 2006*, tabled in the House of Commons on September 30, 2009;
- Modifications to the rules governing Tax-Free Savings Accounts, announced on October 16, 2009;
- Increased flexibility for employer funding of registered pension plans by increasing the pension surplus threshold for employer contributions to 25 per cent from its previous 10 per cent limit, announced on October 27, 2009;
- Technical legislative proposals addressing recent court decisions on the GST/HST and financial services, announced on December 14, 2009;
- Measures released in draft form on December 18, 2009 relating to the income taxation of shareholders of foreign affiliates, as well as the remaining measures released in a previous draft relating to foreign affiliates;
- Increases to the Air Travellers Security Charge rates announced on February 25, 2010;
- Rules to facilitate the implementation of Employee Life and Health Trusts, released in draft form on February 26, 2010; and
- The income tax technical and bijuralism amendments that were previously released but not yet implemented.

Notices of Ways and Means Motions

Notice of Ways and Means Motion to Amend the *Income Tax Act* and *Income Tax Regulations*

That it is expedient to amend the *Income Tax Act* and *Income Tax Regulations* to provide among other things:

Benefits Entitlement – Shared Custody

(1) That, for amounts in respect of the Goods and Services Tax Credit that are deemed to be paid during months after June 2011,

(*a*) section 122.5 of the Act be amended to add the following after subsection (3):

(3.01) Notwithstanding subsection (3), if an eligible individual is a shared custody parent (within the meaning assigned by section 122.6, but with the words "qualified dependant" in that section having the meaning assigned by subsection (1)) in respect of one or more qualified dependants at the beginning of a month, the amount deemed by subsection (3) to have been paid during a specified month is equal to the amount determined by the formula

$$(A + B) / 2$$

where

A is the amount determined by the formula in subsection (3), calculated without reference to this subsection, and

B is the amount determined by the formula in subsection (3), calculated without reference to this subsection and subparagraph (*b*)(ii) of the definition "eligible individual" in section 122.6.

and

(*b*) paragraph 122.5(6)(*b*) of the Act be replaced by the following:

(*b*) in the absence of an agreement referred to in paragraph (*a*), the person is deemed to be, in relation to that month, a qualified dependant of the individuals, if any, who are, at the beginning of that month, eligible individuals (within the meaning assigned by section 122.6, but with the words "qualified dependant" in that section having the meaning assigned by subsection (1)) in respect of that person; and.

(2) That, for overpayments in respect of the Canada Child Tax Benefit that are deemed to arise after June 2011,

(*a*) paragraph (*b*) of the definition "eligible individual" in section 122.6 of the Act be replaced by the following:

(*b*) is a parent of the qualified dependant who

(i) is the parent who primarily fulfils the responsibility for the care and upbringing of the qualified dependant and who is not a shared custody parent in respect of the qualified dependant, or

(ii) is a shared custody parent in respect of the qualified dependant;

(*b*) section 122.6 of the Act be amended by adding the following definition in alphabetical order:

"shared custody parent" in respect of a qualified dependant at a particular time means, where the presumption referred to in paragraph (*f*) of the definition "eligible individual" does not apply in respect of the qualified dependant, an individual who is one of the two parents of the qualified dependant who

(*a*) are not at that time cohabiting spouses or common-law partners of each other,

(*b*) reside with the qualified dependant on an equal or near equal basis, and

(c) primarily fulfil the responsibility for the care and upbringing of the qualified dependant when residing with the qualified dependant, as determined in consideration of prescribed factors,

and

(*c*) section 122.61 of the Act be amended by adding the following after subsection (1):

(1.1) Notwithstanding subsection (1), if an eligible individual is a shared custody parent in respect of one or more qualified dependants at the beginning of a month, the overpayment deemed by subsection (1) to have arisen during the month is equal to the amount determined by the formula

$$(A + B) / 2$$

where

A is the amount determined by the formula in subsection (1), calculated without reference to this subsection, and

B is the amount determined by the formula in subsection (1), calculated without reference to this subsection and subparagraph (*b*)(ii) of the definition "eligible individual" in section 122.6.

Universal Child Care Benefit for Single Parents

(3) That, for the 2010 and subsequent taxation years, subsection 56(6) of the Act be replaced with the following:

(6) There shall be included in computing the income of a taxpayer for a taxation year the total of all amounts each of which is a benefit paid under section 4 of the *Universal Child Care Benefit Act* that is received in the taxation year by

(*a*) the taxpayer, if

(i) the taxpayer does not have a cohabiting spouse or common-law partner (within the meaning assigned by section 122.6) at the end of the year and the taxpayer does not make a designation under subsection (6.1) for the taxation year, or

(ii) the income for the taxation year of the person who is the taxpayer's cohabiting spouse or common-law partner at the end of the taxation year is equal to or greater than the income of the taxpayer for the taxation year;

(*b*) the taxpayer's cohabiting spouse or common-law partner at the end of the taxation year, if the income of the cohabiting spouse or common-law partner for the taxation year is greater than the taxpayer's income for the taxation year; or

(*c*) an individual who makes a designation under subsection (6.1) in respect of the taxpayer for the taxation year.

Designation

(6.1) If, at the end of a taxation year, a taxpayer does not have a cohabiting spouse or common-law partner (within the meaning assigned by section 122.6), the taxpayer may designate, in the taxpayer's return of income for the taxation year, the total of all amounts, each of which is a benefit received in the taxation year by the taxpayer under section 4 of the *Universal Child Care Benefit Act*.

to be income of

(*a*) if the taxpayer deducts an amount for the taxation year under subsection 118(1) because of paragraph (*b*) of the description of B in that subsection in respect of an individual, the individual; or

(*b*) in any other case, a child who is a qualified dependant (as defined in section 2 of the *Universal Child Care Benefit Act*) of the taxpayer.

Medical Expense Tax Credit – Purely Cosmetic Procedures

(4) That, for expenses incurred after March 4, 2010, the description of medical expenses in subsection 118.2(2) of the Act not include amounts paid for medical or dental services, or any related expenses, provided for purely cosmetic purposes, unless the services are necessary for medical or reconstructive purposes.

Rollover of RRSP Proceeds to an RDSP

(5) That, for deaths that occur after March 3, 2010, the special deduction in paragraph 60(*l*) of the Act, in respect of contributions made to an RRSP or RRIF of an individual out of proceeds received by the individual from an RRSP, RRIF or RPP (each of which is referred to in this paragraph and paragraphs (6) to (8) as a "plan") as a consequence of the death of the annuitant or member (the "deceased") of the plan, be extended to contributions made to an RDSP of an individual, if the following conditions are met:

(a) the individual would have been entitled to a deduction under paragraph 60(*l*) of the Act had the contribution been made to an RRSP of the individual;

(b) the individual was a child or grandchild of the deceased and was, at the time of the deceased's death, financially dependent on the deceased because of mental or physical infirmity;

(c) the RDSP contribution complies with the conditions in paragraphs 146.4(4)(*f*) to (*h*) of the Act;

(d) the RDSP contribution is not made before July 2011;

(e) the holder of the RDSP and the individual designate the RDSP contribution in prescribed form at the time the contribution is made; and

(f) the amount of the RDSP contribution does not exceed the amount of the proceeds that were included in computing the individual's income.

(6) That, for deaths that occur after 2007 and before 2011, the Minister of National Revenue have the authority to apply the special deduction in paragraph 60(*l*) of the Act, as proposed to be amended by paragraph (5) of this Notice, with such modifications as the circumstances require, to allow a deduction in computing an individual's income, if the following conditions are met:

(a) the individual is the spouse or common-law partner of the deceased or is a person described in subparagraph (5)(*b*);

(b) the conditions in subparagraphs (5)(*c*) to (*f*) are satisfied; and

(c) the contribution is made before 2012 to an RDSP of a person described in subparagraph (5)(*b*).

(7) For the purposes of paragraph (6),

(a) except to the extent that subparagraph (*b*) is applicable, the deduction will apply for the taxation year in which the individual received the proceeds; and

(b) to the extent that the individual previously deducted an amount under paragraph 60(*l*) of the Act in respect of the proceeds from the deceased's plan, and made the RDSP contribution from amounts withdrawn from an RRSP or RRIF of the individual, the deduction will apply for the same taxation year in which the amounts are withdrawn.

(8) That, for deaths that occur after 2007 and before 2011, the Minister of National Revenue have the authority to allow a deduction in computing a deceased taxpayer's income for the year in which the taxpayer died, if the following conditions are met:

(a) an amount is included in the income of the taxpayer by reason of subsection 146(8.8) or 146.3(6) of the Act;

(b) an amount is contributed before 2012 to the RDSP of a child or grandchild who was, at the time of the deceased's death, financially dependent on the deceased because of mental or physical infirmity;

(c) the contributor of the amount is a beneficiary of the deceased's estate or is a person who received directly an amount of the deceased's RRSP or RRIF proceeds on the death of the annuitant;

(d) the total of all amounts so contributed does not exceed the amount described in subparagraph *(a)*, minus any amount claimed as an RRSP or RRIF post-death loss under 146(8.92) or 146.3(6.3) of the Act, as the case may be; and

(e) the conditions in subparagraphs (5)*(c)* to *(e)* are satisfied.

(9) That, for deaths that occur after 2007 and before 2011, the Minister of National Revenue have the authority to allow a deduction in computing an individual's income for a year, if the following conditions are met:

(a) a lump sum amount was received by the individual from a RPP as a consequence of the death of an individual (the "deceased") and was included in the income of the individual in the year by reason of paragraph 56(1)*(a)* of the Act;

(b) an amount is contributed before 2012 to the RDSP of a child or grandchild of the deceased who was, at the time of the deceased's death, financially dependent on the deceased because of mental or physical infirmity;

(c) the individual is a beneficiary of the deceased's estate or is a person who received an amount directly from the RPP;

(d) the total of all amounts so contributed does not exceed the amount described in subparagraph *(a)*; and

(e) the conditions in subparagraphs (5)*(c)* to *(e)* are satisfied.

(10) That, where paragraph (5), (6), (8) or (9) applies in respect of an RDSP contribution, no amount of the contribution be added to the "non-taxable portion of a disability assistance payment" pursuant to subsection 146.4(7) of the Act.

Provincial Payments into RESPs and RDSPs

(11) That payments made into a registered education savings plan, as defined in section 146.1 of the Act, or into a registered disability savings plan, as defined in section 146.4 of the Act, under a program administered by a province, or under a program funded, directly or indirectly, by a province but administered by a third party, be treated for the purposes of the Act in the same manner as federal grants and bonds paid into these plans.

(12) That, in respect of provincial programs administered by a province, paragraph (11) apply for the 2007 and subsequent taxation years.

(13) That, in respect of programs that are funded, directly or indirectly, by a province but administered by a third party, paragraph (11) apply for the 2009 and subsequent taxation years.

(14) That, for the 2009 and subsequent taxation years, subparagraphs 241(4)(*d*)(vii.1) and 241(4)(*d*)(vii.5) of the Act be amended to allow taxpayer information to be disclosed for the purpose of administering or enforcing programs described in paragraph (11).

Scholarship Exemption and Education Tax Credit

(15) That, for the 2010 and subsequent taxation years, the portion of the scholarship exemption in paragraph 56(3)(a) of the Act that applies in respect of a scholarship, fellowship or bursary received in connection with the taxpayer's enrolment in an educational program be limited to an amount equal to the sum of the fees paid to a designated educational institution, as defined in subsection 118.6(1) of the Act, in respect of the taxpayer's tuition and costs incurred for program-related materials, if the taxpayer may deduct an amount by reason of paragraph (*b*) of the description of B in subsection 118.6(2) of the Act in respect of that educational program.

(16) That, for the 2010 and subsequent taxation years, a scholarship, fellowship or bursary (in this paragraph referred to as an "award") is not, for the purpose of the scholarship exemption in subsection 56(3) of the Act, considered to be received in connection with a taxpayer's enrolment in an educational program except to the extent that it is reasonable to conclude that the award is intended to support the taxpayer's enrolment in the program, having regard to all the circumstances, including

(a) any terms or conditions that apply in respect of the award,

(b) the duration of the program, and

(c) the period for which support is intended to be provided by the award.

(17) That, for the 2010 and subsequent taxation years, a program at a post-secondary school level referred to in the definition "qualifying education program" in subsection 118.6(1) of the Act does not include a program that consists primarily of research, unless the program leads to a diploma from a college or a Collège d'enseignement général et professionnel (CEGEP), or a bachelor, masters or doctoral degree (or an equivalent degree).

Charities: Disbursement Quota Reform

(18) That, for taxation years of registered charities that end on or after March 4, 2010,

(a) the definitions "capital gains pool", "enduring property" and "specified gift" in subsection 149.1(1) of the Act be repealed;

(b) the formula in the definition "disbursement quota" in subsection 149.1(1) of the Act be replaced by the following:

A x B x 0.035 / 365

where

A is the number of days in the taxation year, and

B is

(*a*) the prescribed amount for the year, in respect of all or a portion of a property owned by the charity at any time in the 24 months immediately preceding the taxation year that was not used directly in charitable activities or administration, if that amount is greater than

(i) if the registered charity is a charitable organization, $100,000, and

(ii) in any other case, $25,000, and

(*b*) in any other case, nil;

(c) the following definition be added in alphabetical order in subsection 149.1(1) of the Act:

"designated gift" means that portion of a gift, made in a taxation year by a registered charity, that is designated as a designated gift in its information return for the year.

(19) That, for taxation years of registered charities that end on or after March 4, 2010, the word "specified" in subsection 149.1(1.1) of the Act be replaced with the word "designated".

(20) That, for taxation years of registered charities that end on or after March 4, 2010, subsection 149.1(4.1) of the Act be amended

(a) by replacing paragraph 149.1(4.1)(*a*) with the following:

(*a*) of a registered charity, if it has entered into a transaction (including a gift to another registered charity) and it may reasonably be considered that a purpose of the transaction was to avoid or delay unduly the expenditure of amounts on charitable activities;

and

(b) by adding the following after paragraph 149.1(4.1)(*c*):

(*d*) of a registered charity, if it has in a taxation year received a gift (other than a designated gift) from another registered charity with which it does not deal at arm's length, and if it has not expended, before the end of the next taxation year, in addition to its disbursement quotas for those taxation years, an amount at least equal to the total amount of the gift, on charitable activities carried on by it or by way of gifts made to qualified donees with which it deals at arm's length.

(21) That, for taxation years of registered charities that end on or after March 4, 2010, subsection 149.1(8) of the Act be replaced by the following:

(8) A registered charity may, with the approval in writing of the Minister, accumulate property for a particular purpose, on terms and conditions, and over such period of time, as the Minister specifies in the approval, and any property accumulated after receipt of and in accordance with that approval, including any income earned in respect of the accumulated property, is not to be included in the amount described in B in the formula in the definition "disbursement quota" in subsection (1) for any taxation year that the Minister specifies.

(22) That, for taxation years of registered charities that end on or after March 4, 2010, subsection 188.1(11) be replaced by the following:

(11) If, in a taxation year, a registered charity has entered into a transaction (including a gift to another registered charity) and it may reasonably be considered that a purpose of the transaction was to avoid or delay unduly the expenditure of amounts on charitable activities, the registered charity is liable to a penalty under this Act for its taxation year equal to 110% of the amount of expenditure avoided or delayed, and in the case of a gift to another registered charity, both charities are jointly and severally, or solidarily, liable to the penalty.

(12) If a registered charity has in a taxation year received a gift of property (other than a designated gift) from another registered charity with which it does not deal at arm's length, and if it has not expended, before the end of the next taxation year, in addition to its disbursement quotas for those taxation years, an amount at least equal the amount of the gift, on charitable activities carried on by it or by way of gifts made to qualified donees with which it deals at arm's length, the registered charity is liable to a penalty under this Act for that subsequent taxation year equal to 110% of the amount of by which the fair market value of the property exceeds the total of such amounts expended.

Employee Stock Options

Stock Option Cash-Outs

(23) That, for transactions occurring after 4:00 p.m. Eastern Standard Time on March 4, 2010, paragraphs 110(1)(*d*) and (*d*.1) of the Act require, as a condition of eligibility for the deductions provided under those paragraphs (referred to in this paragraph as "the stock option deduction"), that the securities described in an agreement to sell or issue securities referred to in subsection 7(1) of the Act be acquired by the employee, unless

(*a*) the employer elects in prescribed form in respect of all stock options issued or to be issued after 4:00 p.m. Eastern Standard Time on March 4, 2010 under the agreement, and files such election with the Minister of National Revenue, that neither the employer, nor any person who does not deal at arm's length with the employer, will deduct any amount in respect of a payment, to or for the benefit of the employee, for the employee's disposition of rights under the agreement;

(*b*) the employer provides the employee with evidence in writing of such election; and

(*c*) the employee files such evidence with the Minister of National Revenue with his or her return of income for the year in which the stock option deduction is claimed.

(24) That, for dispositions of rights occurring after 4:00 p.m. Eastern Standard Time on March 4, 2010, it be clarified that the rules in subsection 7(1) of the Act apply in circumstances in which an employee (or a person who does not deal at arm's length with the employee) disposes of rights under an agreement to sell or issue securities to a person with whom the employee does not deal at arm's length.

Tax Deferral Election and Remittance Requirement

(25) That, in respect of rights under an agreement to sell or issue securities exercised after 4:00 p.m. Eastern Standard Time on March 4, 2010, subsections 7(8) to (16) of the Act be repealed.

(26) That, in respect of securities acquired by employees after 2010, it be clarified that under section 153 of the Act an amount must be remitted to the Receiver General by the employer in respect of an employment benefit that is taxable under section 7 of the Act (other than an amount to which subsection 7(1.1) of the Act applies), to the same extent as if the amount of the benefit had been paid to the employee in money as a bonus, and, for these purposes, if the requirements of paragraph 110(1)(*d*) of the Act are met in respect of the employment benefit at the time that the securities are acquired, the amount of the benefit be reduced by one-half.

(27) That, in respect of employment benefits realized from acquisitions of securities after 2010, section 153 of the Act provide that the fact that the benefit arose from the acquisition of securities not be considered a basis on which the Minister of National Revenue may reduce the amount required to be remitted under section 153 of the Act.

(28) That paragraphs (26) and (27) not apply in respect of rights under an agreement to sell or issue securities granted before 2011 if the agreement was entered into in writing before 4:00 pm Eastern Standard Time on March 4, 2010 and included, at that time, a written condition that restricts the employee from disposing of the securities acquired under the agreement for a period of time after exercise.

Special Relief for Tax Deferral Elections

(29) That, where a taxpayer disposes of securities before 2015 and the securities gave rise to an employment benefit in respect of which an election under subsection 7(10) of the Act was made, the taxpayer be permitted to elect, in prescribed form, the following tax treatment for the taxation year in which the securities are disposed of:

(a) that paragraph 110(1)(*d*) and 110(1)(*d*.1) of the Act be read without reference to the phrase "1/2 of" in calculating the amount deductible by the taxpayer in respect of the employment benefit arising under subsection 7(1);

(b) that one-half of the lesser of

i. the amount deductible under subparagraph (*a*) and

ii. the taxpayer's capital loss from the disposition of the securities

be included as a taxable capital gain in the taxpayer's income for the taxation year in which the deduction in subparagraph (*a*) is claimed;

(*c*) that a special tax, equal to the taxpayer's proceeds of disposition of the securities (or 2/3 of the taxpayer's proceeds of disposition, if the taxpayer resides in Québec), be payable under the Act for the taxation year in which the deduction under subparagraph (*a*) is claimed; and

(*d*) that the taxable capital gain under subparagraph (*b*) be disregarded for the purposes of the definition "adjusted income" in subsections 122.5(1), 122.51(1) and 180.2(1), section 122.6, and the definition "adjusted net income" in subsection 122.7(1) of the Act.

(30) That, an election described in paragraph (29) in respect of a taxation year that is outside the normal reassessment period (within the meaning of subsection 152(3.1) of the Act) be considered an application for determination by the Minister of National Revenue under subsection 152(4.2).

(31) That, the deadline for a taxpayer to file the election described in paragraph (29) shall be:

(*a*) if the taxpayer disposed of the securities before 2010, the taxpayer's filing-due date for 2010, and

(*b*) if the taxpayer disposes of the securities after 2009, the taxpayer's filing-due date for the year of the disposition.

U.S. Social Security Benefits

(32) That, in computing taxable income for a taxation year that ends after 2009, a taxpayer be allowed to deduct 35 per cent of the total of all benefits received by the taxpayer in the taxation year to which paragraph 5 of Article XVIII of the *Convention between Canada and the United States of America with respect to Taxes on Income and on Capital* as set out in Schedule I to the *Canada-United States Tax Convention Act, 1984*, of the S.C. 1984, c. 20, applies, if

(a) the taxpayer has, continuously during a period that begins before 1996 and that ends in the taxation year, been resident in Canada and received such benefits in each taxation year ending in that period, or

(b) the benefits are payable to the taxpayer in respect of a deceased individual, and

(i) the deceased individual was, immediately before the deceased individual's death, the taxpayer's spouse or common-law partner and was, in the taxation year in which the deceased individual died, a taxpayer described in paragraph (a), and

(ii) the taxpayer has, continuously during a period that begins at the time of the death of the deceased individual and that ends in the taxation year, been resident in Canada and received such benefits in each taxation year ending in that period.

Mineral Exploration Tax Credit

(33) That, for expenses renounced under a flow-through share agreement made after March 2010,

(a) paragraph (*a*) of the definition "flow-through mining expenditure" in subsection 127(9) of the Act be replaced by the following:

(*a*) that is a Canadian exploration expense incurred by a corporation after March 2010 and before 2012 (including, for greater certainty, an expense that is deemed by subsection 66(12.66) to be incurred before 2012) in conducting mining exploration activity from or above the surface of the earth for the purpose of determining the existence, location, extent or quality of a mineral resource described in paragraph (*a*) or (*d*) of the definition "mineral resource" in subsection 248(1),

and

(b) paragraphs (*c*) and (*d*) of the definition "flow-through mining expenditure" in subsection 127(9) of the Act be replaced by the following:

(*c*) an amount in respect of which is renounced in accordance with subsection 66(12.6) by the corporation to the taxpayer (or a partnership of which the taxpayer is a member) under an agreement described in that subsection and made after March 2010 and before April 2011, and

(*d*) that is not an expense that was renounced under subsection 66(12.6) to the corporation (or a partnership of which the corporation is a member), unless that renunciation was under an agreement described in that subsection and made after March 2010 and before April 2011.

Canadian Renewable and Conservation Expenses – Principal-Business Corporations

(34) That, in respect of taxation years ending after 2004, the definition "principal-business corporation" in subsection 66(15) of the Act be amended to include a corporation, the principal business of which is producing fuel or generating or distributing energy, using property described in Class 43.1 or 43.2 of Schedule II to the *Income Tax Regulations*.

SIFT Conversions and Loss Trading

(35) That subsection 256(7) of the Act be modified to add a rule similar to that in existing paragraph 256(7)(*c*) such that where two or more persons dispose of interests in a SIFT trust (as defined in the Act, determined without reference to subsection 122.1(2) of the Act), SIFT partnership (as defined in the Act, determined without reference to subsection 197(8) of the Act) or real estate investment trust in exchange for shares of the capital stock of a corporation, control of that corporation and of each corporation controlled by it immediately before the exchange is deemed to have been acquired at the time of the exchange by a person or group of persons.

(36) That subsection 256(7) of the Act be modified such that where a SIFT wind-up corporation is the only beneficiary of a trust and the trust controls another corporation, on a distribution of the shares of the other corporation that is part of a SIFT trust wind-up event (as defined in the Act), the SIFT wind-up corporation will be deemed not to acquire control of the other corporation because of that distribution.

(37) That the amendments referred to in paragraphs (35) and (36) apply to transactions undertaken after 4:00 p.m. Eastern Standard Time March 4, 2010, other than transactions that the parties are obligated to complete pursuant to the terms of an agreement in writing between the parties entered into before that time. A party shall be considered not to be obligated to complete a transaction if the party may be excused from completing the transaction as a result of amendments to the *Income Tax Act*. If the relevant parties so elect in writing, the amendments referred to in paragraphs (35) and (36) will apply to transactions that were completed or agreed to in writing before 4:00 p.m. Eastern Standard Time March 4, 2010.

Section 116 and Taxable Canadian Property

(41) That, in determining after March 4, 2010 whether a property is taxable Canadian property of a taxpayer, paragraphs (*d*) to (*l*) of the definition "taxable Canadian property" in subsection 248(1) of the Act be replaced by the following:

(*d*) a share of the capital stock of a corporation (other than a mutual fund corporation) that is not listed on a designated stock exchange, an interest in a partnership or an interest in a trust (other than a unit of a mutual fund trust or an income interest in a trust resident in Canada), if, at any particular time during the 60-month period that ends at that time, more than 50% of the fair market value of the share or interest, as the case may be, was derived directly or indirectly from one or any combination of

(i) real or immovable property situated in Canada,

(ii) Canadian resource properties,

(iii) timber resource properties, and

(iv) options in respect of, or interests in, or for civil law rights in, property described in any of subparagraphs (i) to (iii), whether or not the property exists,

(*e*) a share of the capital stock of a corporation that is listed on a designated stock exchange, a share of the capital stock of a mutual fund corporation or a unit of a mutual fund trust, if, at any particular time during the 60-month period that ends at that time,

(i) 25% or more of the issued shares of any class of the capital stock of the corporation, or 25% or more of the issued units of the trust, as the case may be, were owned by or belonged to one or any combination of

(A) the taxpayer, and

(B) persons with whom the taxpayer did not deal at arm's length, and

(ii) more than 50% of the fair market value of the share or unit, as the case may be, was derived directly or indirectly from one or any combination of properties described under subparagraphs (*d*)(i) to (iv), or

(*f*) an option in respect of, or an interest in, or for civil law a right in, a property described in any of paragraphs (*a*) to (*e*), whether or not the property exists,

(39) That, in determining after March 4, 2010 whether a property is taxable Canadian property of a taxpayer,

(a) paragraph 85(1)(*i*) of the Act be replaced by the following:

(*i*) where the property so disposed of is taxable Canadian property of the taxpayer, all of the shares of the capital stock of the Canadian corporation received by the taxpayer as consideration for the property are deemed, at any time that is within 60 months after the disposition, to be taxable Canadian property of the taxpayer.

(b) paragraphs 44.1(2)(*c*), 51(1)(*f*), 85.1(1)(*a*), subsection 85.1(5), paragraph 85.1(8)(*b*), subsections 87(4) and (5), paragraphs 97(2)(*c*), 107(2)(*d*.1), (3.1)(*d*) and 107.4(3)(*f*) and subsection 248(25.1) of the Act be amended in a manner similar to the amendment to paragraph 85(1)(*i*) of the Act.

(40) That, in determining after March 4, 2010 whether a property is taxable Canadian property of a taxpayer, section 128.1 of the Act be amended by adding the following after subsection (6):

(6.1) For the purposes of paragraph (6)(*a*), a property is deemed to be taxable Canadian property of the individual throughout the period that began at the emigration time and that ends at the particular time if

(*a*) the emigration time is before March 5, 2010; and

(*b*) the property was taxable Canadian property of the individual on March 4, 2010.

Refunds under Regulation 105 and Section 116

(41) That, in respect of an application made by a taxpayer after March 4, 2010 for a refund of an overpayment in respect of a taxation year of the taxpayer, subsection 164(1.5) of the Act be amended to permit the Minister of National Revenue to refund the overpayment, to the extent that it relates to an assessment of another person under subsection 227(10) or (10.1) of the Act, if the taxpayer's return of income required to be filed under Part I of the Act for the taxation year is filed on or before the day that is two years after the date of the assessment and if the assessment relates to,

(*a*) in the case of an amount assessed under subsection 227(10) of the Act, a payment to the taxpayer of a fee, commission or other amount in respect of services rendered in Canada; and

(*b*) in the case of an amount assessed under subsection 227(10.1) of the Act, an amount payable under subsection 116(5) or (5.3) of the Act in respect of the disposition of taxable Canadian property by the taxpayer.

Foreign Tax Credit Generators

(42) That, for income or profits tax paid for taxation years of a taxpayer that end after March 4, 2010, section 126 of the Act be amended by adding the following after subsection (4.1):

(4.11) If a taxpayer is a member of a partnership, any income or profits tax paid to the government of a particular country other than Canada — in respect of the income of the partnership for a period during which the taxpayer's share of the income of the partnership under the income tax laws of any country other than Canada under whose laws the income of the partnership is subject to income taxation, is less than its share thereof for the purposes of the Act — is not included in computing the taxpayer's business-income tax or non-business-income tax for any taxation year.

(43) That, for income or profits tax paid, and amounts prescribed in respect of a foreign affiliate of a taxpayer to be foreign accrual tax applicable, in respect of amounts included in computing the taxpayer's income under subsection 91(1) of the Act for taxation years of the taxpayer that end after March 4, 2010, section 91 of the Act be amended by adding the following after subsection (4):

(4.1) For the purposes of the definition "foreign accrual tax" in subsection 95(1), foreign accrual tax applicable to a particular amount included in computing a taxpayer's income under subsection (1) for a taxation year in respect of a particular foreign affiliate of the taxpayer shall not include any income or profits tax paid, or any amount prescribed in respect of the particular affiliate to be foreign accrual tax applicable, in respect of the particular amount where that particular amount is earned during a period in which

(*a*) if the taxpayer is a partnership, the share of the income of any member of the partnership that is a person resident in Canada is, under the income tax laws of any country, other than Canada, under whose laws the income of the partnership is subject to income taxation, less than its share thereof for the purposes of the Act, or

(*b*) in any other case, the taxpayer is considered, under the income tax laws of any country, other than Canada, under whose laws the income of the particular affiliate is subject to income taxation, to own less than all of the shares of the capital stock of the particular affiliate, of another foreign affiliate of the taxpayer in which the particular affiliate has an equity percentage, or of another foreign affiliate of the taxpayer that has an equity percentage in the particular affiliate, that are considered to be owned by the taxpayer for the purposes of the Act.

(44) That, for income or profits tax paid, and amounts referred to in subsections 5907(1.1) and (1.2) of the *Income Tax Regulations*, in respect of the income of a foreign affiliate of a taxpayer for taxation years of the foreign affiliate that end in taxation years of the taxpayer that end after March 4, 2010, section 5907 of the Regulations be amended by adding the following in numerical order:

(1.03) For the purposes of the description of A in the definition "underlying foreign tax" in subsection (1), income or profits tax paid in respect of the taxable earnings of a particular foreign affiliate of a corporation or in respect of a dividend received by the particular affiliate from another foreign affiliate of the corporation, and amounts by which the underlying foreign tax of the particular affiliate, or any other foreign affiliate of the corporation, is required by subsection (1.1) or (1.2) to be increased, shall not include any income or profits tax paid, or amounts by which the underlying foreign tax is otherwise so required to be increased, as the case may be, in respect of income of the particular affiliate that is earned during a period in which

(*a*) the corporation is considered, under the income tax laws of any country, other than Canada, under whose laws the income of the particular affiliate is subject to income taxation, to own less than all of the shares of the capital stock of the particular affiliate, of another foreign affiliate of the corporation in which the particular affiliate has an equity percentage, or of another foreign affiliate of the corporation that has an equity percentage in the particular affiliate, that are considered to be owned by the corporation for the purposes of the Act, or

(*b*) the corporation's share of the income of a partnership that owns, based on the assumptions contained in paragraph 96(1)(*c*) of the Act, shares of the capital stock of the particular affiliate is, under the income tax laws of any country, other than Canada, under whose laws the income of the partnership is subject to income taxation, less than its share thereof for the purposes of the Act.

Foreign Investment Entities and Non-Resident Trusts

(45) That the provisions of the Act relating to foreign investment entities and non-resident trusts be modified in accordance with the proposals described in the budget documents tabled by the Minister of Finance in the House of Commons on March 4, 2010.

Notice of Ways and Means Motion to Amend the *Excise Tax Act*

That it is expedient to amend the *Excise Tax Act* as follows:

GST/HST and Purely Cosmetic Procedures

1. (1) Section 1 of Part II of Schedule V to the *Excise Tax Act* is amended by adding the following in alphabetical order:

"cosmetic service supply"
« fourniture de services esthétiques »

"cosmetic service supply" means a supply of property or a service that is made for cosmetic purposes and not for medical or reconstructive purposes;

(2) Subsection (1) applies in respect of

(*a*) a supply made after March 4, 2010; and

(*b*) a supply made on or before that day if

(i) all of the consideration for the supply becomes due after March 4, 2010, or is paid after that day without having become due, or

(ii) any consideration for the supply became due, or was paid, on or before that day, unless the supplier did not, on or before that day, charge, collect or remit any amount as or on account of tax in respect of the supply under Part IX of the Act.

2. (1) Part II of Schedule V to the Act is amended by adding the following after section 1:

1.1 For the purposes of this Part, other than section 9, a cosmetic service supply and a supply, in respect of a cosmetic service supply, that is not made for medical or reconstructive purposes are deemed not to be included in this Part.

(2) Subsection (1) applies in respect of

(*a*) a supply made after March 4, 2010; and

(*b*) a supply made on or before that day if

(i) all of the consideration for the supply becomes due after March 4, 2010, or is paid after that day without having become due, or

(ii) any consideration for the supply became due, or was paid, on or before that day, unless the supplier did not, on or before that day, charge, collect or remit any amount as or on account of tax in respect of the supply under Part IX of the Act.

3. (1) Section 2 of Part II of Schedule V to the Act is replaced by the following:

2. A supply of an institutional health care service made by the operator of a health care facility if the institutional health care service is rendered to a patient or resident of the facility.

(2) Subsection (1) applies in respect of

(*a*) a supply made after March 4, 2010; and

(*b*) a supply made on or before that day if

(i) all of the consideration for the supply becomes due after March 4, 2010, or is paid after that day without having become due, or

(ii) any consideration for the supply became due, or was paid, on or before that day, unless the supplier did not, on or before that day, charge, collect or remit any amount as or on account of tax in respect of the supply under Part IX of the Act.

4. (1) Section 5 of Part II of Schedule V to the Act is replaced by the following:

5. A supply of a consultative, diagnostic, treatment or other health care service that is rendered by a medical practitioner to an individual.

(2) Subsection (1) applies in respect of

(*a*) a supply made after March 4, 2010; and

(*b*) a supply made on or before that day if

(i) all of the consideration for the supply becomes due after March 4, 2010, or is paid after that day without having become due, or

(ii) any consideration for the supply became due, or was paid, on or before that day, unless the supplier did not, on or before that day, charge, collect or remit any amount as or on account of tax in respect of the supply under Part IX of the Act.

5. (1) Section 2 of Part VI of Schedule V to the Act is amended by striking out "or" at the end of paragraph (*n*), by adding "or" at the end of paragraph (*o*) and by adding the following after paragraph (*o*):

(*p*) property or a service

(i) the supply of which

(A) is a cosmetic service supply (as defined in section 1 of Part II of this Schedule), or

(B) is in respect of a cosmetic service supply referred to in clause (A) and is not made for medical or reconstructive purposes, and

(ii) the supply of which would be included in Part II of this Schedule or Part II of Schedule VI if Part II of this Schedule were read without reference to section 1.1 or Part II of Schedule VI were read without reference to section 1.2, as the case may be.

(2) Subsection (1) applies in respect of

(*a*) a supply made after March 4, 2010; and

(*b*) a supply made on or before that day if

(i) all of the consideration for the supply becomes due after March 4, 2010, or is paid after that day without having become due, or

(ii) any consideration for the supply became due, or was paid, on or before that day, unless the supplier did not, on or before that day, charge, collect or remit any amount as or on account of tax in respect of the supply under Part IX of the Act.

6. (1) Part II of Schedule VI to the Act is amended by adding the following after section 1.1:

1.2. For the purposes of this Part, a cosmetic service supply (as defined in section 1 of Part II of Schedule V) and a supply, in respect of a cosmetic service supply, that is not made for medical or reconstructive purposes are deemed not to be included in this Part.

(2) Subsection (1) applies in respect of

(*a*) a supply made after March 4, 2010; and

(*b*) a supply made on or before that day if

(i) all of the consideration for the supply becomes due after March 4, 2010, or is paid after that day without having become due, or

(ii) any consideration for the supply became due, or was paid, on or before that day, unless the supplier did not, on or before that day, charge, collect or remit any amount as or on account of tax in respect of the supply under Part IX of the Act.

7. (1) Section 34 of Part II of Schedule VI to the Act is replaced by the following:

34. A supply of a service (other than a service the supply of which is included in any provision of Part II of Schedule V except section 9 of that Part) of installing, maintaining, restoring, repairing or modifying a property the supply of which is included in any of sections 2 to 32 and 37 to 41 of this Part, or any part for such a property if the part is supplied in conjunction with the service.

(2) Subsection (1) applies in respect of

(*a*) a supply made after March 4, 2010; and

(*b*) a supply made on or before that day if

(i) all of the consideration for the supply becomes due after March 4, 2010, or is paid after that day without having become due, or

(ii) any consideration for the supply became due, or was paid, on or before that day, unless the supplier did not, on or before that day, charge, collect or remit any amount as or on account of tax in respect of the supply under Part IX of the Act.

Simplification of the GST/HST for the Direct Selling Industry

8. (1) The Act is amended by adding the following after section 177:

Network Sellers

Definitions

178. (1) The following definitions apply in this section and section 236.5.

"network commission"
« *commission de réseau* »

"network commission" of a sales representative of a person means an amount that is payable by the person to the sales representative under an agreement between the person and the sales representative

(*a*) as consideration for a supply of a service, made by the sales representative, of arranging for the sale of a select product or a sales aid of the person; or

(*b*) solely as a consequence of a supply of a service, made by any sales representative of the person described in paragraph (*a*) of the definition "sales representative", of arranging for the sale of a select product or a sales aid of the person.

"network seller"
« *vendeur de réseau* »

"network seller" means a person notified by the Minister of an approval under subsection (5).

"sales aid"
« *matériel de promotion* »

"sales aid" of a particular person that is a network seller or a sales representative of a network seller means property (other than a select product of any person) that

(*a*) is a customized business form or a sample, demonstration kit, promotional or instructional item, catalogue or similar personal property acquired, manufactured or produced by the particular person for sale to assist in the promotion, sale or distribution of select products of the network seller; and

(*b*) is neither sold nor held for sale by the particular person to a sales representative of the network seller that is acquiring the property for use as capital property.

"sales representative"
« *représentant commercial* »

"sales representative" of a particular person means

(*a*) a person (other than a person that is an employee of the particular person or that acts, in the course of its commercial activities, as agent in making supplies of select products of the particular person on behalf of the particular person) that

(i) has a contractual right under an agreement with the particular person to arrange for the sale of select products of the particular person, and

(ii) does not arrange for the sale of select products of the particular person primarily at a fixed place of business of the person other than a private residence; or

(*b*) a person (other than a person that is an employee of the particular person or that acts, in the course of its commercial activities, as agent in making supplies of select products of the particular person on behalf of the particular person) that has a contractual right under an agreement with the particular person to be paid an amount by the particular person solely as a consequence of a supply of a service, made by a person described in paragraph (*a*), of arranging for the sale of a select product or a sales aid of the particular person.

"select product"
« *produit déterminé* »

"select product" of a person means tangible personal property that

(*a*) is acquired, manufactured or produced by the person for supply by the person for consideration, otherwise than as used property, in the ordinary course of business of the person; and

(*b*) is ordinarily acquired by consumers by way of sale.

Qualifying network seller

(2) For the purposes of this section, a person is a qualifying network seller throughout a fiscal year of the person if

(*a*) all or substantially all of the total of all consideration, included in determining the income from a business of the person for the fiscal year, for supplies made in Canada by way of sale is for

(i) supplies of select products of the person, made by the person, by way of sales that are arranged for by sales representatives of the person (in this subsection referred to as "select supplies"), or

(ii) where the person is a direct seller (as defined in section 178.1), supplies by way of sale of exclusive products (as defined in that section) of the person made by the person to independent sales contractors (as defined in that section) of the person at any time when an approval of the Minister for the application of section 178.3 to the person is in effect;

(*b*) all or substantially all of the total of all consideration, included in determining the income from a business of the person for the fiscal year, for select supplies is for select supplies made to consumers;

(*c*) all or substantially all of the sales representatives of the person to which network commissions become payable by the person during the fiscal year are sales representatives, each having a total of such network commissions of not more than the amount determined by the formula

$$\$30{,}000 \times A/365$$

where

A is the number of days in the fiscal year; and

(*d*) the person and each of its sales representatives have made joint elections under subsection (4).

Application

(3) A person may apply to the Minister, in prescribed form containing prescribed information, to have subsection (7) apply to the person and each of its sales representatives, beginning on the first day of a fiscal year of the person, if the person

(*a*) is registered under Subdivision d of Division V and is reasonably expected to be, throughout the fiscal year,

(i) engaged exclusively in commercial activities, and

(ii) a qualifying network seller; and

(*b*) files the application in prescribed manner before

(i) in the case of a person that has never made a supply of a select product of the person, the day in the fiscal year on which the person first makes a supply of a select product of the person, and

(ii) in any other case, the first day of the fiscal year.

Joint election

(4) If subsection (3) applies to a person or a person is a network seller, the person and a sales representative of the person may jointly elect, in prescribed form containing prescribed information, to have subsection (7) apply to them at all times when an approval granted under subsection (5) is in effect.

Approval or refusal

(5) If the Minister receives an application under subsection (3) from a person, the Minister may approve the application of subsection (7) to the person and each of its sales representatives beginning on the first day of a fiscal year of the person or may refuse the application and the Minister shall notify the person in writing of the approval and the day on which it becomes effective or of the refusal.

Evidence of joint elections

(6) Every network seller shall maintain evidence satisfactory to the Minister that the network seller and each of its sales representatives have made joint elections under subsection (4).

Effect of approval

(7) For the purposes of this Part, if, at any time when an approval granted under subsection (5) in respect of a network seller and each of its sales representatives is in effect, a network commission becomes payable by the network seller to a sales representative of the network seller as consideration for a taxable supply (other than a zero-rated supply) of a service made in Canada by the sales representative, the taxable supply is deemed not to be a supply.

Sales aids

(8) For the purposes of this Part, if, at any time when an approval granted under subsection (5) in respect of a network seller and each of its sales representatives is in effect, the network seller or a sales representative of the network seller makes in Canada a taxable supply by way of sale of a sales aid of the network seller or of the sales representative, as the case may be, to a sales representative of the network seller, the taxable supply is deemed not to be a supply.

Host gifts

(9) For the purposes of this Part, if, at any time when an approval granted under subsection (5) in respect of a network seller and each of its sales representatives is in effect, the network seller or a particular sales representative of the network seller makes a supply of property to an individual as consideration for the supply by the individual of a service of acting as a host at an occasion that is organized for the purpose of allowing a sales representative of the network seller or the particular sales representative, as the case may be, to promote, or to arrange for the sale of, select products of the network seller, the individual is deemed not to have made a supply of the service and the service is deemed not to be consideration for a supply.

Notification of refusal

(10) If the Minister notifies a person of a refusal under subsection (5) at any time when the person and a sales representative of the person have made a joint election under subsection (4), the person shall forthwith notify the sales representative of the refusal in a manner satisfactory to the Minister.

Revocation by Minister

(11) The Minister may revoke an approval granted under subsection (5) in respect of a network seller and each of its sales representatives, effective on the first day of a fiscal year of the network seller, if, before that day, the Minister notifies the network seller of the revocation and the day on which it becomes effective and if

(*a*) the network seller fails to comply with any provision of this Part;

(*b*) it can reasonably be expected that the network seller will not be a qualifying network seller throughout the fiscal year;

(*c*) the network seller requests in writing that the Minister revoke the approval;

(*d*) the notice referred to in subsection 242(1) has been given to, or the request referred to in subsection 242(2) has been filed by, the network seller; or

(*e*) it can reasonably be expected that the network seller will not be engaged exclusively in commercial activities throughout the fiscal year.

Deemed revocation

(12) If an approval granted under subsection (5) in respect of a network seller and each of its sales representatives is in effect at any time in a particular fiscal year of the network seller and, at any time during the particular fiscal year, the network seller ceases to be engaged exclusively in commercial activities or the Minister cancels the registration of the network seller, the approval is deemed to be revoked, effective on the first day of the fiscal year of the network seller immediately following the particular fiscal year, unless, on that first day, the network seller is registered under Subdivision d of Division V and it is reasonably expected that the network seller will be engaged exclusively in commercial activities throughout that following fiscal year.

Effect of revocation

(13) If an approval granted under subsection (5) in respect of a network seller and each of its sales representatives is revoked under subsection (11) or (12), the following rules apply:

(*a*) the approval ceases to have effect immediately before the day on which the revocation becomes effective;

(*b*) the network seller shall forthwith notify each of its sales representatives in a manner satisfactory to the Minister of the revocation and the day on which it becomes effective; and

(*c*) a subsequent approval granted under subsection (5) in respect of the network seller and each of its sales representatives shall not become effective before the first day of a fiscal year of the network seller that is at least two years after the day on which the revocation became effective.

Failure to notify on revocation

(14) For the purposes of this Part, a taxable supply (other than a zero-rated supply) of a service made in Canada by a sales representative of a network seller is deemed not to be a supply if

(*a*) the consideration for the taxable supply is a network commission that becomes payable by the network seller to the sales representative at any time after an approval granted under subsection (5) in respect of the network seller and each of its sales representatives ceases to have effect as a consequence of a revocation on the basis of any of paragraphs (11)(*a*) to (*c*);

(*b*) the approval could not have been revoked on the basis of paragraph (11)(*d*) or (*e*) and would not have otherwise been revoked under subsection (12);

(*c*) at the time the network commission becomes payable, the sales representative

(i) has not been notified of the revocation by the network seller, as required under paragraph (13)(*b*), or by the Minister, and

(ii) neither knows, nor ought to know, that the approval ceased to have effect; and

(*d*) an amount has not been charged or collected as, or on account of, tax in respect of the taxable supply.

Failure to notify on revocation

(15) Subsection (16) applies if the following conditions are satisfied:

(*a*) the consideration for a taxable supply (other than a zero-rated supply) of a service made in Canada by a sales representative of a network seller is a network commission that becomes payable by the network seller to the sales representative at any time after an approval granted under subsection (5) in respect of the network seller and each of its sales representatives ceases to have effect as a consequence of a revocation under subsection (11) or (12);

(*b*) the approval was, or could at any time otherwise have been, revoked on the basis of paragraph (11)(*d*) or (*e*) or was, or would at any time otherwise have been, revoked under subsection (12);

(*c*) at the time the network commission becomes payable, the sales representative

(i) has not been notified of the revocation by the network seller, as required under paragraph (13)(*b*), or by the Minister, and

(ii) neither knows, nor ought to know, that the approval ceased to have effect; and

(*d*) an amount has not been charged or collected as, or on account of, tax in respect of the taxable supply.

Failure to notify on revocation

(16) If the conditions described in paragraphs (15)(*a*) to (*d*) are satisfied, the following rules apply for the purposes of this Part:

(*a*) section 166 shall not apply in respect of the taxable supply described in paragraph (15)(*a*);

(*b*) tax that becomes payable or that would, in the absence of section 166, become payable in respect of the taxable supply shall not be included in determining the net tax of the sales representative referred to in paragraph (15)(*a*); and

(*c*) the consideration for the taxable supply shall not, in determining whether the sales representative is a small supplier, be included in the total referred to in paragraph 148(1)(*a*) or (2)(*a*).

Sales aids on revocation

(17) For the purposes of this Part, a taxable supply of a sales aid of a particular sales representative of a network seller made in Canada by way of sale to another sales representative of the network seller is deemed not to be a supply if

(*a*) the consideration for the taxable supply becomes payable at any time after an approval granted under subsection (5) in respect of the network seller and each of its sales representatives ceases to have effect as a consequence of a revocation under subsection (11) or (12);

(*b*) at the time the consideration becomes payable, the particular sales representative

(i) has not been notified of the revocation by the network seller, as required under paragraph (13)(*b*), or by the Minister, and

(ii) neither knows, nor ought to know, that the approval ceased to have effect; and

(*c*) an amount has not been charged or collected as, or on account of, tax in respect of the taxable supply.

Restriction on input tax credits

(18) If

(*a*) a registrant that is a network seller in respect of which an approval granted under subsection (5) is in effect acquires or imports property (other than a select product of the network seller) or a service or brings it into a participating province for supply to a sales representative of the network seller or an individual related to the sales representative,

(*b*) tax becomes payable in respect of the acquisition, importation or bringing in, as the case may be,

(*c*) the property or service is so supplied by the registrant for no consideration or for consideration that is less than the fair market value of the property or service, and

(*d*) the sales representative or individual is not acquiring the property or service for consumption, use or supply exclusively in the course of commercial activities of the sales representative or individual, as the case may be,

the following rules apply:

(*e*) no tax is payable in respect of the supply, and

(*f*) in determining an input tax credit of the registrant, no amount shall be included in respect of tax that becomes payable, or is paid without having become payable, by the registrant in respect of the property or service.

Appropriations for sales representatives

(19) For the purposes of this Part, if a registrant that is a network seller in respect of which an approval granted under subsection (5) is in effect appropriates, at any time, property (other than a select product of the network seller) that was acquired, manufactured or produced, or any service acquired or performed, in the course of commercial activities of the registrant, to or for the benefit of a sales representative of the network seller, or any individual related to the sales representative, that is not acquiring the property or service for consumption, use or supply exclusively in the course of commercial activities of the sales representative or individual, in any manner (otherwise than by way of supply for consideration equal to the fair market value of the property or service), the registrant shall be deemed

(*a*) to have made a supply of the property or service for consideration paid at that time equal to the fair market value of the property or service at that time; and

(*b*) except where the supply is an exempt supply, to have collected, at that time, tax in respect of the supply calculated on that consideration.

Exception

(20) Subsection (19) does not apply to property or a service appropriated by a registrant if the registrant was not entitled to claim an input tax credit in respect of the property or service because of section 170.

Ceasing to be a registrant

(21) If, at any time when an approval granted under subsection (5) in respect of a network seller and each of its sales representatives is in effect, a sales representative of the network seller ceases to be a registrant, paragraph 171(3)(*a*) does not apply to sales aids of the sales representative that were supplied to the sales representative by the network seller or another sales representative of the network seller at any time when the approval was in effect.

Non-arm's length supply

(22) Section 155 does not apply to the supply described in subsection (9) made to an individual acting as a host.

(2) Subsection (1) applies in respect of any fiscal year of a person that begins on or after January 1, 2010, except that, for the purposes of applying section 178 of the Act, as enacted by subsection (1), in respect of a fiscal year of a person that begins during 2010, the following rules also apply:

(*a*) a person may, despite subparagraphs 178(3)(*b*)(i) and (ii) of the Act, as enacted by subsection (1), apply under subsection 178(3) of the Act, as enacted by subsection (1), to have subsection 178(7) of the Act, as enacted by subsection (1), apply to the person and each of its sales representatives, beginning on a day in 2010 that the person specifies in the application, if the person files the application before that day and that day is the first day of a reporting period of the person that begins during the fiscal year;

(*b*) if the person makes an application in accordance with paragraph (*a*),

(i) each reference in subsections 178(2), (3), (5) and (11) of the Act, as enacted by subsection (1), to "fiscal year" is to be read as a reference to "qualifying period", and

(ii) each reference in subsection 178(12) of the Act, as enacted by subsection (1), to "particular fiscal year" is to be read as a reference to "qualifying period"; and

(*c*) "qualifying period" of a person means the period beginning on the day specified in an application made by the person in accordance with paragraph (*a*) and ending on the last day of the fiscal year.

9. (1) The Act is amended by adding the following after section 236.4:

First and second variant years

236.5 (1) For the purposes of this section, a fiscal year of a network seller in respect of which an approval granted under 178(5) is in effect is

(*a*) the first variant year of the network seller if the network seller

(i) fails to meet the condition referred to in paragraph 178(2)(*c*) in respect of the fiscal year, and

(ii) meets the condition referred to in paragraph 178(2)(*c*) for each fiscal year of the network seller, in respect of which an approval granted under 178(5) is in effect, preceding the fiscal year; and

(*b*) the second variant year of the network seller if

(i) the fiscal year is after the first variant year of the network seller,

(ii) the network seller fails to meet the condition referred to in paragraph 178(2)(*c*) in respect of the fiscal year, and

(iii) the network seller meets the condition referred to in paragraph 178(2)(*c*) for each fiscal year (other than the first variant year) of the network seller, in respect of which an approval granted under 178(5) is in effect, preceding the fiscal year.

Adjustment by network seller if conditions not met

(2) Subject to subsections (3) and (4), if a network seller fails to satisfy any condition referred to in paragraphs 178(2)(*a*) to (*c*) for a fiscal year of the network seller in respect of which an approval granted under subsection 178(5) is in effect and, at any time during the fiscal year, a network commission would, if this Part were read without reference to subsection 178(7), become payable by the network seller to a sales representative of the network seller as consideration for a taxable supply (other than a zero-rated supply) made in Canada by the sales representative, the network seller shall, in determining the net tax for the first reporting period of the network seller following the fiscal year, add an amount equal to interest, at the prescribed rate, on the total amount of tax that would be payable in respect of the taxable supply if tax were payable in respect of the taxable supply, computed for the period beginning on the earliest day on which consideration for the taxable supply is paid or becomes due and ending on the day on or before which the network seller is required to file a return for the reporting period that includes that earliest day.

No adjustment for first variant year

(3) In determining the net tax for the first reporting period of a network seller following the first variant year of the network seller, the network seller is not required to add an amount in accordance with subsection (2) if

(*a*) the network seller satisfies the conditions referred to in paragraphs 178(2)(*a*) and (*b*) for the first variant year and for each fiscal year, in respect of which an approval granted under subsection 178(5) is in effect, preceding the first variant year; and

(*b*) the network seller would meet the condition referred to in paragraph 178(2)(*c*) for the first variant year if the reference in that paragraph to "all or substantially all" were read as a reference to "at least 80%".

No adjustment for second variant year

(4) In determining the net tax for the first reporting period of the network seller following the second variant year of the network seller, the network seller is not required to add an amount in accordance with subsection (2) if

(*a*) the network seller satisfies the conditions referred to in paragraphs 178(2)(*a*) and (*b*) for the second variant year and for each fiscal year, in respect of which an approval granted under subsection 178(5) is in effect, preceding the second variant year;

(*b*) the network seller would meet the condition referred to in paragraph 178(2)(*c*) for each of the first variant year and the second variant year if the reference in that paragraph to "all or substantially all" were read as a reference to "at least 80%"; and

(*c*) within 180 days after the beginning of the second variant year, the network seller requests in writing that the Minister revoke the approval.

Adjustment by network seller due to notification failure

(5) If, at any time after an approval granted under subsection 178(5) in respect of a network seller and each of its sales representatives ceases to have effect as a consequence of a revocation under subsection 178(11) or (12), a network commission would, if this Part were read without reference to subsection 178(7), become payable as consideration for a taxable supply (other than a zero-rated supply) made in Canada by a sales representative of the network seller that has not been notified, as required under paragraph 178(13)(*b*), of the revocation and an amount is not charged or collected as, or on account of, tax in respect of the taxable supply, the network seller shall, in determining the net tax for the particular reporting period of the network seller that includes the earliest day on which consideration for the taxable supply is paid or becomes due, add an amount equal to interest, at the prescribed rate, on the total amount of tax that would be payable in respect of the taxable supply if tax were payable in respect of the taxable supply, computed for the period beginning on that earliest day and ending on the day on or before which the network seller is required to file a return for the particular reporting period.

(2) Subsection (1) applies in respect of any fiscal year of a person that begins on or after January 1, 2010, except that, if the person makes an application in accordance with paragraph 8(2)(*a*) in respect of a qualifying period (as defined in paragraph 8(2)(*c*)), for the purposes of applying subsections 236.5(1) to (4) of the Act, as enacted by subsection (1), each reference in those subsections to "fiscal year" is to be read, in respect of a fiscal year of the person that begins in 2010, as a reference to "qualifying period".

10. (1) Section 242 of the Act is amended by adding the following after subsection (2.2):

Request for cancellation

(2.3) If, at any time when an approval granted under subsection 178(5) in respect of a network seller (as defined in subsection 178(1)) and each of its sales representatives (as defined in that subsection) is in effect, a sales representative of the network seller would be a small supplier if the approval had been in effect at all times before that time and the sales representative files with the Minister in prescribed manner a request, in prescribed form containing prescribed information, to have the registration of the sales representative cancelled, the Minister shall cancel the registration of the sales representative.

(2) Subsection (1) is deemed to have come into force on January 1, 2010.

Financial Services

11. (1) Paragraph (*l*) of the definition "financial service" in subsection 123(1) of the Act is replaced by the following:

(*l*) the agreeing to provide, or the arranging for, a service that is

(i) referred to in any of paragraphs (*a*) to (*i*), and

(ii) not referred to in any of paragraphs (*n*) to (*t*), or

(2) The definition "financial service" in subsection 123(1) of the Act is amended by adding the following after paragraph (*q*):

(*q.1*) an asset management service,

(3) The definition "financial service" in subsection 123(1) of the Act is amended by adding the following after paragraph (*r.2*):

(*r.3*) a service (other than a prescribed service) of managing credit that is in respect of credit cards, charge cards, credit accounts, charge accounts, loan accounts or accounts in respect of any advance and is provided to a person granting, or potentially granting, credit in respect of those cards or accounts, including a service provided to the person of

(i) checking, evaluating or authorizing credit,

(ii) making decisions on behalf of the person in relation to a grant, or an application for a grant, of credit,

(iii) creating or maintaining records for the person in relation to a grant, or an application for a grant, of credit or in relation to the cards or accounts, or

(iv) monitoring another person's payment record or dealing with payments made, or to be made, by the other person,

(*r.4*) a service (other than a prescribed service) that is preparatory to the provision or the potential provision of a service referred to in any of paragraphs (*a*) to (*i*) and (*l*), or that is provided in conjunction with a service referred to in any of those paragraphs, and that is

(i) a service of collecting, collating or providing information, or

(ii) a market research, product design, document preparation, document processing, customer assistance, promotional or advertising service or a similar service,

(*r.5*) property (other than a financial instrument or prescribed property) that is delivered or made available to a person in conjunction with the rendering by the person of a service referred to in any of paragraphs (*a*) to (*i*) and (*l*),

(4) Subsection 123(1) of the Act is amended by adding the following in alphabetical order:

"asset management service"
« *service de gestion des actifs* »

"asset management service" means a service (other than a prescribed service) rendered by a particular person in respect of the assets or liabilities of another person that is a service of

(*a*) managing or administering the assets or liabilities, irrespective of the level of discretionary authority the particular person has to manage some or all of the assets or liabilities,

(*b*) providing research, analysis, advice or reports in respect of the assets or liabilities,

(*c*) determining which assets or liabilities are to be acquired or disposed of, or

(*d*) acting to realize performance targets or other objectives in respect of the assets or liabilities;

"management or administrative service"
« *service de gestion ou d'administration* »

"management or administrative service" includes an asset management service;

(5) Subsections (1) to (4) are deemed to have come into force on December 17, 1990, except that, for the purposes of Part IX of the Act, other than Division IV of that Part, subsections (1) to (4) do not apply in respect of a service rendered under an agreement, evidenced in writing, for a supply if

(*a*) all of the consideration for the supply became due or was paid on or before December 14, 2009;

(*b*) the supplier did not, on or before December 14, 2009, charge, collect or remit any amount as or on account of tax under Part IX of the Act in respect of the supply; and

(*c*) the supplier did not, on or before December 14, 2009, charge, collect or remit any amount as or on account of tax under Part IX of the Act in respect of any other supply that is made under the agreement and that includes the provision of a service referred to in any of paragraphs (*q*), (*q.1*) and (*r.3*) to (*r.5*) of the definition "financial service" in subsection 123(1) of the Act, as amended by subsections (1) to (4).

(6) Despite section 298 of the Act, the Minister of National Revenue may assess, reassess or make an additional assessment of any amount payable or remittable by a person in respect of a supply of a service referred to in any of paragraphs (*q*), (*q.1*) and (*r.3*) to (*r.5*) of the definition "financial service" in subsection 123(1) of the Act, as amended by subsections (2) to (4), at any time on or before the later of the day that is one year after the day on which this Act is assented to and the last day of the period otherwise allowed under that section for making the assessment, reassessment or additional assessment.

Notice of Ways and Means Motion to Amend the *Customs Tariff*

That it is expedient to amend the *Customs Tariff* to provide among other things:

1. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to provide that the Most-Favoured-Nation Tariff rates of customs duty and, where necessary, the applicable preferential tariff rates of customs duty, be "Free", for the following tariff items:

2511.10.00	2804.21.00	2826.19.00	2835.26.90	2843.30.91
2514.00.10	2804.29.90	2826.90.10	2835.29.21	2843.30.99
2515.20.20	2804.30.00	2826.90.90	2835.29.29	2843.90.90
2516.12.10	2804.40.00	2827.10.90	2835.29.90	2846.10.90
2516.20.20	2804.69.00	2827.20.00	2835.31.90	2846.90.00
2516.90.20	2805.12.00	2827.35.00	2835.39.90	2850.00.19
2517.30.00	2805.19.90	2827.39.20	2836.20.90	2852.00.20
2518.20.00	2805.30.00	2827.39.30	2836.91.90	2852.00.30
2530.90.10	2811.19.90	2827.39.90	2836.92.00	2852.00.40
2705.00.00	2811.21.90	2827.41.00	2836.99.90	2852.00.50
2707.40.90	2811.29.10	2827.49.00	2841.50.20	2852.00.60
2707.99.10	2811.29.99	2827.60.10	2841.50.90	2852.00.70
2710.11.19	2812.10.90	2827.60.99	2841.61.00	2852.00.80
2710.19.20	2812.90.90	2829.19.90	2841.69.00	2852.00.90
2710.91.10	2817.00.90	2829.90.20	2841.70.90	2853.00.00
2710.91.91	2819.90.90	2833.24.00	2841.80.00	2903.15.00
2710.99.20	2821.10.00	2833.25.90	2841.90.20	2903.21.00
2710.99.91	2821.20.00	2833.40.90	2841.90.90	2903.39.00
2711.11.00	2823.00.90	2834.10.00	2842.10.10	2903.41.00
2712.90.10	2824.10.00	2834.29.10	2842.90.20	2903.42.00
2713.20.90	2824.90.10	2835.10.00	2842.90.91	2903.43.00
2714.10.00	2824.90.90	2835.22.10	2843.10.00	2903.44.00
2715.00.10	2825.70.00	2835.22.90	2843.21.00	2903.45.00
2804.10.00	2825.90.10	2835.24.00	2843.29.00	2903.46.00

2903.47.00	2907.29.20	2914.23.00	2917.13.99	2921.44.90
2903.49.00	2907.29.90	2914.31.00	2917.14.90	2921.45.91
2903.61.10	2908.11.90	2914.39.00	2917.19.99	2921.45.99
2903.69.90	2908.19.90	2914.40.90	2917.20.00	2921.46.00
2904.10.10	2908.91.00	2914.50.90	2917.32.00	2921.49.00
2904.10.99	2908.99.19	2914.61.00	2917.33.00	2921.51.90
2904.20.00	2908.99.90	2914.69.90	2917.34.10	2921.59.90
2904.90.00	2909.30.00	2914.70.00	2917.34.99	2922.11.00
2905.16.90	2909.41.00	2915.13.90	2917.39.90	2922.12.00
2905.17.00	2909.43.00	2915.24.00	2918.18.90	2922.13.00
2905.19.10	2909.44.90	2915.29.90	2918.19.10	2922.14.00
2905.19.99	2909.49.91	2915.32.00	2918.19.99	2922.19.91
2905.22.00	2909.49.92	2915.33.00	2918.23.00	2922.19.99
2905.32.00	2909.49.99	2915.36.00	2918.29.90	2922.21.00
2905.42.00	2909.50.90	2915.39.90	2918.91.00	2922.29.29
2905.43.00	2909.60.20	2915.50.10	2918.99.90	2922.29.90
2905.49.10	2909.60.99	2915.50.99	2919.90.10	2922.31.00
2905.49.90	2910.10.00	2915.90.92	2919.90.99	2922.39.90
2905.51.00	2910.20.00	2915.90.99	2920.11.00	2922.41.90
2905.59.00	2910.40.90	2916.12.20	2920.19.00	2922.44.00
2906.12.00	2910.90.90	2916.12.90	2920.90.10	2922.49.90
2906.13.00	2911.00.00	2916.19.00	2920.90.99	2922.50.90
2906.19.90	2912.19.10	2916.20.10	2921.11.90	2923.10.90
2906.21.90	2912.19.99	2916.20.99	2921.19.20	2923.20.90
2906.29.00	2912.29.00	2916.31.00	2921.19.91	2923.90.10
2907.12.00	2912.30.00	2916.32.00	2921.19.99	2923.90.99
2907.15.90	2912.50.00	2916.34.00	2921.22.00	2924.11.00
2907.19.10	2913.00.00	2916.35.00	2921.29.90	2924.12.90
2907.19.99	2914.11.00	2917.11.19	2921.30.90	2924.19.10
2907.21.90	2914.19.00	2917.11.90	2921.42.90	2924.19.99
2907.22.90	2914.22.00	2917.12.99	2921.43.90	2924.21.00

2924.23.19	2932.99.00	2937.50.10	3809.93.00	3824.75.00
2924.23.99	2933.19.90	2937.50.29	3810.10.90	3824.76.00
2924.24.00	2933.29.90	2937.50.39	3810.90.00	3824.77.00
2924.29.91	2933.32.90	2937.90.19	3811.11.00	3824.78.00
2924.29.99	2933.33.00	2938.90.00	3811.19.00	3824.79.00
2925.11.00	2933.39.90	2940.00.00	3811.21.90	3824.81.00
2925.12.00	2933.41.00	2942.00.90	3811.29.00	3824.82.00
2925.19.00	2933.49.10	3202.10.10	3811.90.00	3824.83.00
2925.21.90	2933.49.90	3203.00.10	3812.10.00	3824.90.20
2925.29.90	2933.55.00	3205.00.00	3812.20.90	3824.90.30
2926.30.00	2933.59.91	3206.42.90	3812.30.90	3824.90.49
2926.90.90	2933.59.99	3206.49.29	3813.00.00	3824.90.90
2929.90.10	2933.69.10	3206.49.30	3814.00.00	3903.11.00
2929.90.90	2933.69.99	3206.49.90	3815.19.10	3903.19.10
2930.20.10	2933.71.90	3207.10.90	3815.90.10	3903.19.90
2930.20.99	2933.72.00	3207.20.00	3816.00.90	3903.20.10
2930.30.20	2933.79.00	3207.30.90	3817.00.90	3903.20.90
2930.30.99	2933.91.90	3207.40.90	3821.00.90	3903.30.10
2930.50.90	2933.99.22	3212.10.00	3823.11.00	3903.30.90
2930.90.21	2933.99.90	3212.90.90	3823.12.00	3903.90.00
2930.90.29	2934.10.00	3215.11.00	3823.19.00	3904.10.90
2930.90.99	2934.20.90	3215.19.90	3823.70.90	3904.21.00
2931.00.10	2934.30.90	3215.90.90	3824.10.00	3904.22.00
2931.00.99	2934.91.00	3801.30.90	3824.30.00	3904.30.90
2932.19.00	2934.99.10	3801.90.00	3824.40.00	3904.40.00
2932.29.90	2934.99.99	3806.30.90	3824.50.90	3904.50.10
2932.91.00	2935.00.20	3807.00.10	3824.60.00	3904.90.00
2932.92.00	2935.00.99	3809.91.20	3824.71.00	3905.12.00
2932.93.00	2937.19.19	3809.91.90	3824.72.00	3905.19.90
2932.94.00	2937.29.10	3809.92.10	3824.73.00	3905.21.00
2932.95.00	2937.39.19	3809.92.90	3824.74.00	3905.29.90

3905.91.10	3917.22.00	4006.90.90	4104.19.29	4106.31.10
3905.99.10	3917.23.90	4007.00.90	4104.19.31	4106.31.92
3906.10.90	3917.29.90	4008.11.90	4104.19.39	4106.31.99
3906.90.91	3917.31.90	4008.19.10	4104.19.41	4106.32.20
3907.20.90	3917.40.90	4008.19.90	4104.19.49	4106.32.90
3907.30.90	3919.90.99	4008.21.90	4104.19.91	4106.91.20
3907.40.10	3920.10.10	4008.29.10	4104.19.99	4106.91.90
3907.50.00	3920.10.90	4008.29.90	4104.41.12	4106.92.20
3907.60.90	3920.20.20	4009.11.00	4104.41.19	4106.92.90
3907.70.90	3920.20.90	4009.12.00	4104.41.92	4107.11.12
3907.91.00	3920.30.90	4009.21.00	4104.41.99	4107.11.19
3907.99.90	3920.43.90	4009.22.90	4104.49.12	4107.11.92
3909.30.10	3920.49.90	4009.31.90	4104.49.19	4107.11.99
3909.40.91	3920.51.90	4009.32.90	4104.49.22	4107.12.12
3909.50.90	3920.59.10	4009.41.90	4104.49.29	4107.12.19
3910.00.90	3920.61.10	4009.42.90	4104.49.92	4107.12.92
3911.10.10	3920.62.90	4010.11.10	4104.49.93	4107.12.99
3911.90.90	3920.63.00	4010.11.20	4104.49.99	4107.19.12
3912.11.90	3920.71.00	4010.12.19	4105.10.12	4107.19.19
3912.12.00	3920.73.10	4010.12.29	4105.10.19	4107.19.92
3912.20.10	3920.79.10	4010.19.19	4105.10.29	4107.19.93
3912.39.10	3920.79.29	4010.19.29	4105.10.99	4107.19.99
3912.90.90	3920.92.90	4104.11.22	4105.30.12	4107.91.20
3913.10.00	3920.93.00	4104.11.29	4105.30.19	4107.91.90
3913.90.90	3920.94.10	4104.11.31	4105.30.99	4107.92.20
3914.00.10	3920.99.91	4104.11.39	4106.21.29	4107.92.90
3916.10.00	4005.10.90	4104.11.41	4106.21.99	4107.99.20
3916.90.11	4005.20.00	4104.11.49	4106.22.22	4107.99.30
3916.90.99	4005.91.90	4104.11.91	4106.22.29	4107.99.90
3917.10.10	4005.99.00	4104.11.99	4106.22.92	4112.00.90
3917.21.00	4006.10.00	4104.19.22	4106.22.99	4113.10.20

4113.10.90	5111.30.29	5208.32.90	5311.00.90	5603.12.99
4113.20.20	5111.30.91	5208.33.99	5407.52.90	5603.13.30
4113.20.90	5111.30.92	5208.39.90	5407.61.11	5603.13.40
4113.90.20	5111.90.50	5208.41.90	5407.61.93	5603.13.50
4113.90.90	5111.90.91	5208.42.99	5407.61.99	5603.13.99
4114.10.00	5111.90.92	5208.43.90	5407.92.90	5603.14.30
4114.20.90	5112.11.60	5208.49.99	5408.10.90	5603.14.40
4302.11.00	5112.11.90	5208.51.90	5408.21.90	5603.14.50
4302.19.22	5112.19.19	5208.52.90	5408.22.29	5603.14.99
4302.19.29	5112.19.94	5208.59.99	5408.22.99	5603.91.50
4302.19.30	5112.19.95	5209.11.90	5408.23.19	5603.91.90
4302.19.90	5112.20.30	5209.12.90	5408.23.99	5603.92.60
4302.20.00	5112.20.91	5209.19.90	5408.24.19	5603.92.99
4408.31.10	5112.20.92	5209.21.90	5408.24.99	5603.93.60
4408.39.10	5112.30.29	5209.22.90	5408.31.90	5603.93.90
4413.00.00	5112.30.30	5209.29.90	5408.32.90	5603.94.50
4415.20.90	5112.30.91	5209.31.90	5408.33.90	5603.94.90
4416.00.90	5112.30.94	5209.32.90	5408.34.90	5606.00.90
5111.11.50	5112.90.30	5209.39.90	5515.13.99	5801.10.99
5111.19.31	5112.90.91	5209.41.90	5515.22.00	5801.22.29
5111.19.32	5112.90.92	5209.42.90	5516.31.00	5801.22.99
5111.19.39	5113.00.90	5209.43.99	5516.32.00	5801.23.90
5111.19.90	5203.00.90	5209.49.90	5516.33.00	5801.24.90
5111.20.19	5208.12.90	5209.51.00	5516.34.00	5801.25.10
5111.20.29	5208.13.90	5209.59.90	5603.11.30	5801.25.29
5111.20.91	5208.19.90	5211.42.90	5603.11.40	5801.26.90
5111.20.92	5208.21.99	5309.11.90	5603.11.50	5801.31.90
5111.30.12	5208.22.90	5309.19.90	5603.11.99	5801.32.90
5111.30.13	5208.23.99	5309.21.90	5603.12.30	5801.33.90
5111.30.18	5208.29.99	5309.29.90	5603.12.40	5801.34.90
5111.30.19	5208.31.99	5310.90.99	5603.12.50	5801.35.99

5801.36.90	5810.10.90	7019.90.40	7307.29.91	7318.16.00
5801.90.99	5810.91.30	7019.90.90	7307.29.99	7318.19.00
5802.11.90	5810.91.90	7106.92.19	7307.91.19	7318.21.00
5802.19.90	5810.92.90	7106.92.21	7307.91.20	7318.22.90
5802.20.90	5810.99.90	7106.92.22	7307.91.90	7318.23.00
5802.30.90	6804.10.00	7107.00.00	7307.92.90	7318.24.00
5803.00.19	6804.23.00	7108.13.20	7307.93.10	7318.29.90
5803.00.22	6805.10.20	7109.00.00	7307.99.20	7320.10.00
5803.00.29	6805.10.90	7111.00.00	7307.99.91	7320.20.90
5803.00.99	6805.20.20	7115.10.00	7307.99.99	7320.90.90
5804.10.30	6805.20.90	7115.90.90	7309.00.90	7324.29.10
5804.10.90	6805.30.20	7202.60.00	7310.10.11	7325.91.10
5804.21.90	6805.30.90	7202.70.00	7310.10.19	7325.91.90
5804.29.90	6806.10.10	7202.91.00	7310.10.90	7407.10.11
5804.30.30	6806.10.90	7202.92.10	7310.21.00	7407.10.12
5804.30.90	6806.20.00	7202.92.90	7310.29.00	7407.10.21
5806.10.19	6806.90.90	7202.93.00	7311.00.90	7407.10.29
5806.10.99	6814.10.90	7202.99.00	7315.12.91	7407.21.21
5806.20.90	6814.90.00	7205.10.10	7315.12.99	7407.21.22
5806.31.40	6815.10.20	7206.90.00	7315.81.90	7407.21.90
5806.31.50	7019.31.90	7303.00.00	7315.82.91	7407.29.21
5806.31.90	7019.32.20	7307.11.10	7315.82.92	7407.29.29
5806.32.99	7019.32.90	7307.11.90	7315.89.91	7407.29.90
5806.39.99	7019.39.99	7307.19.91	7315.89.92	7408.11.31
5806.40.90	7019.40.20	7307.19.99	7315.90.91	7408.11.32
5807.10.19	7019.51.20	7307.21.10	7315.90.99	7408.19.00
5807.10.29	7019.51.99	7307.21.91	7318.11.00	7408.21.20
5807.90.90	7019.52.20	7307.21.99	7318.12.00	7408.21.90
5808.10.90	7019.52.99	7307.22.90	7318.13.90	7408.22.10
5808.90.90	7019.59.20	7307.23.10	7318.14.00	7408.22.90
5809.00.90	7019.59.99	7307.23.90	7318.15.90	7408.29.10

7408.29.90	7614.10.00	8111.00.12	8311.10.00	8438.20.10
7411.10.00	7614.90.00	8111.00.22	8311.20.00	8438.40.10
7411.21.00	7616.10.90	8111.00.40	8311.30.00	8438.60.10
7411.22.00	7801.10.90	8112.51.00	8311.90.90	8443.13.20
7411.29.00	7801.99.00	8112.52.00	8401.10.00	8451.80.10
7412.10.00	7804.11.90	8112.59.00	8401.40.00	8457.30.00
7412.20.00	7804.19.00	8112.92.90	8403.10.00	8458.11.10
7413.00.00	7804.20.00	8112.99.20	8407.33.90	8458.19.10
7415.10.00	7806.00.10	8112.99.90	8407.34.10	8458.91.90
7415.21.00	7806.00.90	8113.00.00	8407.34.21	8459.21.10
7415.29.00	8003.00.20	8205.70.20	8407.34.29	8459.29.10
7415.33.90	8007.00.20	8207.19.20	8409.91.20	8459.31.10
7415.39.00	8007.00.30	8207.19.90	8409.91.90	8459.39.90
7603.10.00	8101.99.90	8207.20.10	8410.11.20	8459.40.10
7603.20.00	8102.95.10	8207.30.10	8410.12.20	8459.61.10
7604.10.12	8102.95.20	8207.40.10	8410.13.20	8460.29.10
7604.10.20	8102.99.00	8207.50.90	8410.90.30	8460.90.91
7604.21.00	8103.90.00	8207.60.10	8411.81.20	8461.50.11
7604.29.12	8104.11.00	8207.80.10	8411.81.90	8461.50.91
7604.29.20	8104.19.90	8209.00.10	8411.82.20	8462.21.91
7605.19.00	8104.30.00	8209.00.92	8411.99.20	8462.29.91
7605.29.00	8104.90.00	8301.20.90	8415.20.90	8462.31.10
7606.11.20	8105.20.90	8301.30.00	8415.83.10	8462.39.10
7606.12.90	8105.90.00	8301.40.10	8415.90.22	8462.49.21
7606.91.90	8107.90.00	8301.60.00	8415.90.29	8462.91.99
7606.92.90	8108.20.90	8307.10.90	8421.23.20	8463.10.10
7607.11.19	8108.30.00	8307.90.00	8421.23.90	8463.30.10
7607.19.90	8108.90.90	8308.10.90	8421.31.90	8463.90.10
7608.10.00	8109.20.90	8308.90.90	8436.80.91	8467.11.10
7611.00.90	8109.30.00	8309.10.00	8437.10.91	8467.19.10
7613.00.00	8109.90.90	8309.90.90	8437.80.10	8467.21.10

8467.22.10	8501.40.39	8528.49.11	9028.10.00
8467.29.10	8501.51.90	8528.49.19	9028.20.90
8468.90.10	8501.52.20	8528.59.11	9028.30.00
8477.10.10	8501.53.91	8528.59.19	9029.20.90
8477.20.10	8501.53.99	8528.71.40	9029.90.20
8477.51.11	8501.61.90	8528.72.34	9030.10.90
8477.51.21	8501.62.90	8528.72.97	9030.31.10
8477.59.11	8501.63.90	8536.70.10	9030.33.10
8477.59.21	8501.64.91	8536.70.20	9030.84.10
8480.20.00	8501.64.99	8536.70.30	9030.89.10
8480.30.00	8502.11.90	8542.31.90	9031.20.90
8480.71.10	8502.12.00	8542.32.90	9031.49.90
8480.79.00	8502.13.00	8542.33.90	9031.80.90
8482.10.10	8502.20.90	8542.39.90	9032.89.90
8482.80.10	8502.40.00	8545.19.28	9033.00.90
8483.20.00	8506.90.90	8545.19.29	
8483.30.00	8507.10.00	8548.90.90	
8483.40.91	8507.20.10	9001.10.90	
8501.10.12	8507.30.20	9001.20.00	
8501.10.99	8507.40.10	9013.10.00	
8501.20.90	8507.80.20	9013.20.00	
8501.31.20	8507.90.90	9013.80.90	
8501.31.30	8511.10.00	9013.90.30	
8501.32.20	8511.20.00	9015.90.10	
8501.32.90	8511.30.00	9016.00.10	
8501.33.20	8511.40.90	9016.00.90	
8501.33.30	8511.50.00	9017.90.10	
8501.34.20	8511.80.90	9017.90.90	
8501.34.30	8511.90.90	9024.10.90	
8501.40.22	8516.10.20	9024.80.90	
8501.40.29	8516.80.90	9025.90.90	

2. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to provide that the Most-Favoured-Nation Tariff rates of customs duty for the tariff items set out in column 1 below be the rates of customs duty set out in column 2 below and that the Most-Favoured-Nation Tariff rates of customs duty, and where necessary the applicable preferential tariff rates of customs duty, in respect of those items set out in column 1, be gradually reduced to "Free" by no later than January 1, 2015.

Column 1	Column 2	Column 1	Column 2
2830.10.00	3%	3908.90.00	6%
2833.21.90	3%	3909.10.10	4%
2839.19.00	5%	3909.20.90	6%
2839.90.10	2.5%	3916.20.00	6%
2847.00.00	5%	3919.10.10	5%
2905.11.00	3%	3919.90.10	5%
2905.12.00	5%	3921.11.90	3%
2905.31.00	5%	3921.12.91	5%
2905.39.00	5%	3921.12.99	5%
2905.45.00	6%	3921.13.91	5%
2907.13.00	5%	3921.13.99	3%
2915.70.10	4%	3921.14.90	3%
2915.70.99	4%	3921.19.90	3%
2915.90.10	3%	3921.90.12	5%
2916.15.00	4%	3921.90.19	5%
2917.12.10	5%	3921.90.94	5%
2917.13.10	4%	3921.90.99	3%
2917.19.10	6%	4408.10.10	5.5%
3204.17.91	4%	4408.90.10	5.5%
3204.17.99	5%	4410.11.10	2%
3206.19.90	4%	4410.12.00	2%
3206.20.00	5%	4410.19.10	2%
3206.49.89	4%	4412.10.10	4.5%
3901.10.90	6%	4412.10.90	5.5%
3901.20.90	6%	4412.31.90	4.5%
3901.30.00	4%	4412.32.90	4.5%
3901.90.00	4%	4412.39.10	5.5%
3902.10.00	4%	4412.39.90	8.5%
3902.30.00	6%	4412.94.90	5.5%
3902.90.10	6%	4412.99.90	5.5%
3908.10.00	3%	5106.10.90	6%

Column 1	Column 2
5106.20.00	6%
5107.10.90	6%
5107.20.90	6%
5111.11.90	7%
5204.11.10	4%
5204.11.90	6%
5205.11.90	6%
5205.12.90	6%
5205.13.90	6%
5205.14.90	6%
5205.21.90	6%
5205.22.90	6%
5205.23.90	6%
5205.24.90	6%
5205.31.90	6%
5205.32.90	6%
5205.41.90	6%
5205.42.90	6%
5206.11.00	6%
5206.12.00	6%
5206.13.00	6%
5206.22.00	6%
5206.31.00	6%
5206.32.00	6%
5206.34.00	6%
5206.35.00	6%
5206.41.00	6%
5206.42.00	6%
5206.43.00	6%
5206.44.00	6%
5209.52.90	7%
5210.11.00	7%
5210.19.00	7%
5210.21.00	7%
5210.29.00	7%
5210.31.00	7%
5210.32.00	7%
5210.39.00	7%
5210.41.00	7%
5210.49.19	10%
5210.49.90	7%
5210.51.90	7%
5210.59.00	7%
5211.11.00	7%
5211.12.90	10%
5211.19.00	10%
5211.20.19	10%
5211.20.90	10%
5211.31.00	10%
5211.32.90	10%
5211.39.00	7%
5211.41.90	10%
5211.43.90	10%
5211.51.00	10%
5211.52.90	10%
5211.59.00	7%
5212.11.30	6%
5212.11.90	10%
5212.12.30	6%
5212.12.90	10%
5212.13.40	6%
5212.13.90	10%
5212.14.40	6%
5212.14.90	10%
5212.15.30	6%
5212.15.90	7%
5212.21.30	6%
5212.21.90	10%
5212.22.30	6%
5212.22.90	10%
5212.23.30	6%
5212.23.90	10%
5212.24.30	6%
5212.24.90	7%
5212.25.30	6%
5212.25.90	10%
5308.90.90	6%
5401.10.00	6%

Column 1	Column 2	Column 1	Column 2
5402.11.90	6%	5508.10.10	6%
5402.19.90	6%	5509.11.00	6%
5402.20.90	6%	5509.12.90	6%
5402.31.90	6%	5509.21.90	6%
5402.32.90	6%	5509.22.30	6%
5402.33.90	6%	5509.22.90	6%
5402.34.90	6%	5509.31.00	6%
5402.39.00	6%	5509.32.90	6%
5402.51.90	6%	5509.41.90	6%
5402.52.99	6%	5509.42.00	6%
5402.59.90	6%	5509.52.90	6%
5402.61.00	6%	5509.53.90	6%
5402.62.90	6%	5509.61.00	6%
5402.69.90	6%	5509.62.00	6%
5407.10.20	8%	5509.91.00	6%
5407.10.90	7%	5509.92.00	6%
5407.20.99	7%	5509.99.00	6%
5407.30.90	10%	5510.11.90	6%
5407.41.90	7%	5510.12.90	6%
5407.42.90	7%	5510.20.90	6%
5407.43.00	10%	5510.30.90	6%
5407.44.00	10%	5510.90.00	6%
5407.51.90	7%	5512.11.99	10%
5407.52.19	8%	5512.19.99	7%
5407.53.00	7%	5512.21.90	10%
5407.54.90	7%	5512.29.99	10%
5407.61.19	10%	5512.91.90	10%
5407.69.90	7%	5512.99.99	10%
5407.71.00	7%	5513.11.99	10%
5407.72.00	7%	5513.12.99	10%
5407.73.90	7%	5513.13.99	10%
5407.74.00	7%	5513.19.00	7%
5407.81.90	7%	5513.21.00	7%
5407.82.99	7%	5513.23.19	7%
5407.83.99	7%	5513.23.99	10%
5407.84.90	7%	5513.29.90	7%
5407.91.90	10%	5513.31.90	10%
5407.93.90	7%	5513.39.19	10%
5407.94.90	7%	5513.39.99	10%

Column 1	Column 2
5513.41.90	7%
5513.49.90	7%
5514.11.99	7%
5514.12.90	7%
5514.19.90	7%
5514.21.00	7%
5514.22.90	7%
5514.23.90	10%
5514.29.90	7%
5514.30.99	7%
5514.41.00	7%
5514.42.00	10%
5514.43.90	10%
5514.49.90	10%
5515.11.90	7%
5515.12.90	7%
5515.19.90	10%
5515.21.90	10%
5515.29.90	10%
5515.91.90	10%
5515.99.19	10%
5515.99.99	10%
5516.13.90	10%
5516.14.90	7%
5516.21.99	7%
5516.22.90	7%
5516.23.99	10%
5516.24.90	7%
5516.41.00	7%
5516.42.00	7%
5516.43.00	7%
5516.44.00	7%
5516.91.99	7%
5516.92.90	7%
5516.94.90	10%
5601.21.29	3%
5601.29.90	3%
5602.10.90	10%
5602.21.99	10%
5602.29.00	10%

Column 1	Column 2
5602.90.90	10%
5604.90.10	6%
5811.00.10	10%
5811.00.29	10%
5811.00.90	10%
5901.10.90	10%
5901.90.90	10%
5902.10.00	6%
5902.20.00	6%
5902.90.00	6%
5903.10.19	10%
5903.10.29	10%
5903.20.19	10%
5903.20.23	8%
5903.20.29	10%
5903.90.10	10%
5903.90.29	10%
5906.10.90	10%
5906.91.99	10%
5906.99.19	10%
5906.99.22	8%
5906.99.29	10%
5907.00.13	6%
5907.00.18	10%
5907.00.19	10%
5910.00.19	7%
5910.00.90	7%
5911.10.90	10%
5911.20.90	10%
5911.31.10	5%
5911.32.10	5%
5911.40.90	10%
5911.90.20	7%
5911.90.90	8%
6001.10.90	10%
6001.21.00	10%
6001.29.90	10%
6001.91.00	10%
6001.92.90	7%
6001.99.90	10%

Column 1	Column 2	Column 1	Column 2
6002.40.40	8%	6006.24.90	10%
6002.40.90	10%	6006.31.90	10%
6002.90.19	8%	6006.32.90	7%
6002.90.90	10%	6006.33.90	10%
6003.10.99	10%	6006.34.90	7%
6003.20.40	8%	6006.41.90	10%
6003.20.90	10%	6006.42.90	7%
6003.30.99	10%	6006.43.90	10%
6003.40.99	10%	6006.44.90	7%
6003.90.40	8%	6006.90.90	10%
6003.90.90	10%	6815.10.90	3%
6004.10.19	8%	7019.40.99	13%
6004.10.90	7%	7607.20.90	5.5%
6004.90.30	8%	7609.00.00	3%
6004.90.90	10%	8402.11.00	6%
6005.21.30	8%	8402.12.00	3%
6005.21.90	10%	8402.19.00	6%
6005.22.30	8%	8402.20.00	2.5%
6005.22.90	10%	8402.90.00	2.5%
6005.23.30	8%	8404.10.10	4%
6005.23.90	10%	8410.11.10	8%
6005.24.30	8%	8410.12.10	8%
6005.24.90	10%	8410.13.10	8%
6005.31.90	10%	8410.90.20	8%
6005.32.90	7%	8411.82.90	8%
6005.33.99	10%	8413.70.99	5%
6005.34.90	7%	8477.80.91	8%
6005.41.90	10%	8502.39.10	5%
6005.42.90	10%	8536.20.90	2%
6005.43.99	10%	8536.90.91	4%
6005.44.90	10%	8536.90.92	2%
6005.90.29	10%	8537.10.21	2%
6005.90.99	8%	8537.10.31	2%
6006.21.10	10%	8537.10.93	2%
6006.21.90	10%	8544.11.90	3%
6006.22.10	10%	8544.19.90	3%
6006.22.90	7%	8544.49.90	3%
6006.23.29	10%	8544.60.91	4%
6006.23.90	10%	8544.60.99	5%
6006.24.10	10%		

3. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 1513.19.10 for goods "For use in the manufacture of animal feeds" currently classified under tariff item No. 1513.19.00 which is being revoked. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be "Free" for the new tariff item.

4. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 1513.19.90 to maintain the current rates of customs duty on goods currently classified under tariff item No. 1513.19.00 except for those goods "For use in the manufacture of animal feeds".

5. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5402.34.20 for "Multifilament single yarn, solely of polypropylene, textured, measuring 715 decitex or more but not exceeding 2,290 decitex, for use in the manufacture of woven fabrics" currently classified under tariff item No. 5402.34.90. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be "Free" for the new tariff item.

6. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5407.93.50 for "3-thread twill weave fabrics, of polyester filaments in the warp and viscose rayon filaments in the weft, of a weight not exceeding 100 g/m^2, for use in the manufacture of apparel" currently classified under tariff item No. 5407.93.90. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be "Free" for the new tariff item.

7. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5515.12.40 for "Plain woven fabric, from yarns of different colours, containing 70% or more by weight of polyester staple fibres in the weft, and 20% or more by weight of polyester filament yarns in the warp, of a weight not exceeding 140 g/m^2, for use in the manufacture of men's and boys' suit jackets, blazers or sports jackets" currently classified under tariff item No. 5515.12.90. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be "Free" for the new tariff item.

8. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5516.11.10 for "Solely of rayon, bleached, of a width exceeding 280 cm, having a sum of yarns per 10 cm in the warp and the weft of 1,060 or more, for use in the manufacture of bed linen, duvet covers, pillow shams, cushions and cushion covers" currently classified under tariff item No. 5516.11.00 which is being revoked. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be "Free" for the new tariff item.

9. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5516.11.90 to cover goods currently classified in tariff item No. 5516.11.00 except for "Solely of rayon, bleached, of a width exceeding 280 cm, having a sum of yarns per 10 cm in the warp and the weft of 1,060 or more, for use in the manufacture of bed linen, duvet covers, pillow shams, cushions and cushion covers". The Most-Favoured-Nation rate of customs duty will be "7%" for the new tariff item and this rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be gradually reduced to "Free" by January 1, 2013.

10. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5516.12.91 for "Solely of rayon, of a width exceeding 280 cm, having a sum of yarns per 10 cm in the warp and the weft of 1,085 or more, for use in the manufacture of bed linen, duvet covers, pillow shams, cushions and cushion covers" currently classified under tariff item No. 5516.12.90 which is being revoked. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be "Free" for the new tariff item.

11. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5516.12.99 to cover goods currently classified under tariff item No. 5516.12.90 except for "Solely of rayon, of a width exceeding 280 cm, having a sum of yarns per 10 cm in the warp and the weft of 1,085 or more, for use in the manufacture of bed linen, duvet covers, pillow shams, cushions and cushion covers". The Most-Favoured-Nation rate of customs duty will be "10%" for the new tariff item and this rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be gradually reduced to "Free" by January 1, 2015.

12. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5516.91.92 for "Plain weave fabric, of unbleached yarns, composed predominately of viscose rayon staple fibres, mixed mainly with horsehair, cotton and polyester staple fibres, of a weight not exceeding 225 g/m^2, for use in the manufacture of apparel" currently classified under tariff item No. 5516.91.99. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be "Free" for the new tariff item.

13. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5909.00.10 to maintain the current rates of customs duty on "Fire hoses" currently classified under tariff item No. 5909.00.00 which is being revoked.

14. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 5909.00.90 to cover the goods currently classified in tariff item No. 5909.00.00 except for "Fire hoses". The Most-Favoured-Nation rate of customs duty will be "10%" for the new tariff item and this rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be gradually reduced to "Free" by January 1, 2015.

15. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 6001.22.10 for "Weft knit fabrics, solely of brushed polyester fibres, of a width exceeding 175 cm, not impregnated, coated, covered or laminated, of a weight exceeding 260 g/m^2 but not exceeding 290 g/m^2, for use in the manufacture of yarn" currently classified in tariff item No. 6001.22.00 which is being revoked. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be "Free" for the new tariff item.

16. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 6001.22.90 to cover goods currently classified in tariff item No. 6001.22.00 except for "Weft knit fabrics, solely of brushed polyester fibres, of a width exceeding 175 cm, not impregnated, coated, covered or laminated, of a weight exceeding 260 g/m^2 but not exceeding 290 g/m^2, for use in the manufacture of yarn". The a Most-Favoured-Nation rate of customs duty of will "7%" for the new tariff item and this rate of customs duty, and where necessary the applicable preferential tariff rates of customs duty, will be gradually reduced to "Free" by January 1, 2013.

17. That the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended to add tariff item No. 6001.92.40 for "Warp pile fabric, cut, solely of polyester, including the ground fabric, brushed, for use in the manufacture of coffin interiors" currently classified under tariff item No. 6001.92.90. The Most-Favoured-Nation Tariff rate of customs duty, and where necessary the applicable preferential rates of customs duty, will be "Free" for the new tariff item.

18. That the Description of Goods of Tariff item No. 8477.80.91 in the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be replaced by the following:

----For blending plastics

19. That the Description of Goods of tariff item No. 8716.90.10 in the List of Tariff Provisions set out in the schedule to the *Customs Tariff* be amended by replacing the reference to "Brake drums, hubs and rotors for use in the manufacture of brakes and brake assemblies mounted on axles for semi-trailers;" with a reference to "Brake drums, hubs and rotors for use in the manufacture or repair of brakes and brake assemblies mounted on axles for semi-trailers;".

20. That any enactment founded on sections 1 to 19 be deemed to have come into force on March 5, 2010.

Notice of Ways and Means Motion to Amend the *Universal Child Care Benefit Act*

That it is expedient to amend the *Universal Child Care Benefit Act* to provide among other things that, for payments in respect of months after June 2011:

(*a*) section 2 of the Act be amended by adding the following definition in alphabetical order:

"shared custody parent" has the meaning assigned for the purpose of Subdivision a.1 of Division E of Part I of the *Income Tax Act*;

(*b*) subsection 4(1) of the Act be replaced by the following:

4. (1) The Minister shall pay to an eligible individual, for each month at the beginning of which he or she is an eligible individual, for each child who is a qualified dependant of the eligible individual at the beginning of that month,

(*a*) a benefit of $50, if the eligible individual is a shared custody parent of the qualified dependant; and

(*b*) a benefit of $100 in any other case.

Notice of Ways and Means Motion to amend the *Income Tax Act*, the *Excise Tax Act*, the *Excise Act, 2001*, the *Air Travellers Security Charge Act*, the *Canada Pension Plan*, and the *Employment Insurance Act* relating to Online Notices

That it is expedient to amend the *Income Tax Act*, the *Excise Tax Act*, the *Excise Act, 2001*, the *Air Travellers Security Charge Act*, the *Canada Pension Plan* and the *Employment Insurance Act* to provide among other things that the provisions of these acts relating to the issuance of online notices be modified in accordance with the proposals described in the budget documents tabled by the Minister of Finance in the House of Commons on March 4, 2010.

Notice of Ways and Means Motion to Amend the *Air Travellers Security Charge Act*

That it is expedient to amend the *Air Travellers Security Charge Act* as follows:

1. (1) The portion of paragraph 12(1)(*a*) of the *Air Travellers Security Charge Act* before subparagraph (i) is replaced by the following:

(*a*) $7.12 for each chargeable emplanement included in the service, to a maximum of $14.25, if

(2) The portion of paragraph 12(1)(*b*) of the Act before subparagraph (i) is replaced by the following:

(*b*) $7.48 for each chargeable emplanement included in the service, to a maximum of $14.96, if

(3) The portion of paragraph 12(1)(*c*) of the Act before subparagraph (i) is replaced by the following:

(*c*) $12.10 for each chargeable emplanement included in the service, to a maximum of $24.21, if

(4) The portion of paragraph 12(1)(*d*) of the Act before subparagraph (i) is replaced by the following:

(*d*) $12.71 for each chargeable emplanement included in the service, to a maximum of $25.42, if

(5) Paragraph 12(1)(*e*) of the Act is replaced by the following:

(*e*) $25.91, if the service includes transportation to a destination outside the continental zone.

(6) The portion of paragraph 12(2)(*a*) of the Act before subparagraph (i) is replaced by the following:

(*a*) $12.10 for each chargeable emplanement by an individual on an aircraft used to transport the individual to a destination outside Canada but within the continental zone, to a maximum of $24.21, if

(7) The portion of paragraph 12(2)(*b*) of the Act before subparagraph (i) is replaced by the following:

(*b*) $12.71 for each chargeable emplanement by an individual on an aircraft used to transport the individual to a destination outside Canada but within the continental zone, to a maximum of $25.42, if

(8) Paragraph 12(2)(*c*) of the Act is replaced by the following:

(*c*) $25.91, if the service includes transportation to a destination outside the continental zone.

(9) Subsections (1) to (8) apply in respect of an air transportation service that includes a chargeable emplanement on or after April 1, 2010 unless,

(*a*) if any consideration is paid or payable in respect of the service, all of the consideration is paid before April 1, 2010; or

(*b*) if no consideration is paid or payable in respect of the service, a ticket is issued before April 1, 2010.